

THE WEATHER — PARIS: Monday, rainy early, fair later. Temp. 10-14 (52-54). LONDON: Monday, showers. Temp. 7-12 (45-54). CHANNEL: Monday, rainy, with rain. Temp. 8-12 (44-54). FRANKFURT: Monday, overcast. Temp. 11-13 (53-55). NEW YORK: Monday, fair. Temp. 47 (54-65).

ADDITIONAL WEATHER DATA — PAGE 22

No. 30,719

**R PARIS, MONDAY, NOVEMBER 23, 1981

INTERNATIONAL Herald Tribune

Published with The New York Times and The Washington Post



Algeria	5,000 Drs.	Iran	135 Rials
Austria	155	Iceland	17.00
Bahrain	0.000 Drs.	India	800 Lacs
Belgium	30 B.F.	Jordan	400 Frs. Dr.
Canada	C\$ 1.00	Korea	500 Wons
Denmark	5.50 D.K.	Kuwait	450 Frs.
Egypt	45 P.	Lebanon	25.00 L.
Erie	20 L.	Malta	500 Drs.
Finland	120 F.L.	Montenegro	100 Drs.
France	200 Drs.	Portugal	1,000 Drs.
Germany	2,000 Drs.	Spain	70 Pesos
Great Britain	30 P.	Sweden	4,500 Kr.
Greece	40 Drs.	Netherlands	225 R. Yugoslav.

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U.S. House Votes To Defy Reagan On Funding Bill

United Press International

WASHINGTON — The Democrat-controlled House voted Sunday to defy President Reagan's veto threat and move forward with a \$427.9-billion stopgap funding bill, accusing Mr. Reagan of engaging in "theatrics."

The House approved the basics of the compromise bill, which Mr. Reagan said he would veto. 205-194, then moved forward with several controversial amendments that had to be dealt with before the bill could receive final passage and go to an uncertain fate in the Senate.

Mr. Reagan said the bill drafted by House and Senate negotiators was too costly and he urged Congress to pass a 15-day extension of the previous stopgap funding bill so it could come up with a compromise acceptable to him.

Many federal agencies would be unable to conduct routine business Monday if no bill was passed, because all authority to spend federal funds for any purpose except health and safety expired at midnight Friday.

House Republican leader Robert H. Michel of Illinois, acting at Mr. Reagan's request, moved to send the bill back to the House-Senate conference committee that produced it for more work.

But the motion was defeated on an almost straight-party-line vote 215-194. The House then moved ahead on the bill itself.

Angry Democratic Reaction

Mr. Reagan was upset both by the level of spending for social programs and by the House's insistence on cutting foreign aid, which he told key congressmen would send the wrong signal to U.S. allies.

Democrats in the House, which had just begun consideration of the compromise bill when the veto threat was delivered, reacted angrily, accusing Mr. Reagan of sending signals that he would sign the bill and then putting the rug from under the House at the last minute.

"I don't understand," said House Democratic leader James C. Wright Jr. of Texas, "unless the

president simply wants the theatics of bringing government to a halt. Now let's not have that."

The president said he had been in touch with congressional leaders and saw no need to get in touch again. He stressed that a shutdown of government services for lack of funding will not affect "Social Security checks, health and national security."

Mr. Reagan said he would not go to California as planned on Sunday if an extension of the current spending bill is not passed. "I would not go and Congress could not go," the president said.

Bill Titled a "Stunt"

House Democrats, however, insisted the compromise bill actually gives Mr. Reagan more than he wants, and they accused budget director David A. Stockman of using phony figures as he admitted he did earlier in the year.

"Many members feel they don't want the president to get away with this PR [public relations] stunt," said Rep. William V. Alexander, Democrat of Arkansas.

Mr. Reagan, in conversations with Rep. Michel and Senate Majority Leader Howard H. Baker Jr. of Tennessee, asked for a 15-day temporary extension of federal spending power while House and Senate negotiations worked out a bill more acceptable to him.

Mr. Reagan said at the White House he hoped there would not be a veto fight, but that the bill was "several billion dollars over" what he wanted. "The people want to get back on the road to fiscal sanity," Mr. Reagan said.

The bill, as completed by the conference committee at 1:17 a.m. Sunday, would cut most federal programs except for Social Security and certain others by 2 percent.

The crisis developed because Congress has not passed the various appropriations bills necessary to fund the government for fiscal 1982, which began Oct. 1. This made a stopgap bill necessary. The first such bill, approved last month, expired at midnight Friday.

Trial in Sadat Killing Opens; Security Tight

By William E. Farrell

New York Times Service

CAIRO — The trial of the alleged assassins of Anwar Sadat has opened in a heavily guarded military courtroom with 23 of 24 Moslem fundamentalists charged in the death confined to a iron cage before three military judges.

The other suspect is still hospitalized with injuries, trial officials said Saturday.

Four of the defendants are accused of shooting Sadat on Oct. 6 during a military parade. The other 20 are accused of complicity in the assassination. The prosecution has called for the death penalty for all 24.

Former Minister Dies

A former Egyptian minister, Abdel-Aziz Abu Atta, one of the most prominent figures detained in a government roundup in September, has died in prison, Reuters quoted his family as saying Sunday.

Abu Atta, 56, died from a chest infection Saturday in Turah jail, south of Cairo, and would be buried Sunday at his home village in the Nile delta.

[Mr. Abu Atta was one of 1,600 per-

sons rounded up by Sadat during the crackdown against religious extremists and political critics.

[He served Sadat as irrigation minister and minister of Sudanese affairs in the mid-1970s. After being dropped from the government he joined the National Front, which opposed Sadat's policy of peace with Israel.

[Mohammed Hassanien Heikal, a journalist who was also detained in the roundup, is suffering from a gall bladder infection, his wife said Sunday.

[Mrs. Heikal said she had received permission to visit her husband, a former newspaper editor and one of the most powerful men in Egypt during Nasser's rule.]

The trial opened Saturday in an atmosphere of intense security at a military installation in Nasser City, a Cairo development not far from the parade grounds where Sadat was shot to death, along with seven others. Twenty-nine persons were wounded in the 45-second attack.

The courtroom was filled with members of the foreign press, with lawyers assigned to the accused and with a sprinkling of relatives, some of them heavily veiled women. The stark room was dominated by the huge, four-sectioned steel cage in which the suspects were placed.

Most of them had their heads shaved and most wore Western-style clothes, although a few appeared in a long native gown called a galabiya. Several bore traces of wounds, including one whose shaved head was covered with an orange medicament.

Several of the lawyers and several defendants said their confessions had been extracted by police torture, and some lawyers said their clients needed medical attention.

Allegation of Torture

Mohammed Abdel Salam Farag, described by authorities as a leading conspirator, told the presiding judge, Maj. Gen. Samir Attia, "We have all been beaten and tortured by the police."

"We were threatened and told they would bring in our sons and daughters and brothers and rape them," Mr. Farag said.

During the proceeding, the allegations of torture were denied by the prosecution.

Judge Attia postponed the second hearing until Nov. 30 to give lawyers time to study the 754-page indictment and to allow those suspects who wanted a medical examination to have one.

INSIDE

China Jobs

China has found jobs for more than three-quarters of its urban unemployed — a restless army of more than 20 million only three years ago — in one of the biggest employment programs ever. Page 4.

Lonely Banker

Pierre Moussa, the former head of Paribas and one of Europe's most acclaimed bankers, is today a controversial and lonely figure. Page 17.

Real Estate

A special supplement on North American real estate appears on Pages 7S-16S.

TOMORROW

Euromarkets

The first of two parts of the annual Euromarkets special supplement will appear in Tuesday's editions of the International Herald Tribune.



Protesters' sign in Bonn on Sunday shows Soviet President Leonid I. Brezhnev riding a nuclear missile. The Associated Press



Mr. Brezhnev is welcomed Sunday by Chancellor Helmut Schmidt of West Germany at the Bonn-Cologne airport. The Associated Press

Protests Held in Bonn As Brezhnev Arrives

Reuters

BONN — Tens of thousands of Afghans and West Germans demonstrated in Bonn Sunday shortly before President Leonid I. Brezhnev of the Soviet Union arrived on his first trip to the West since Moscow intervened in Afghanistan two years ago.

About 5,000 Afghans marched through Bonn's diplomatic suburb of Godesberg chanting "death to Brezhnev" and "Russians out of Afghanistan."

At a separate rally called by liberal and conservative West German politicians, a crowd estimated at about 40,000 was told by Vladimir K. Bukovsky, an exiled Soviet dissident: "Whatever Soviet propaganda says, we know where the real danger to peace comes from."

The turnout was only a fraction

of the 250,000 mustered by West Germany's peace movement last month to protest against NATO plans to deploy new U.S. medium-range nuclear missiles in West Germany. A similar rally Saturday in Amsterdam appeared to have attracted more than 300,000 protesters; police said it was the largest demonstration in the Netherlands since World War II.

While Chancellor Helmut Schmidt was certain to renew Western calls for a Soviet withdrawal from Afghanistan, it appeared that nuclear arms would be the key issue during Mr. Brezhnev's three-day visit.

Geneva Talks

Mr. Brezhnev, who will be 75 next month, arrived only a week before the Soviet Union and the United States were to start talks in Geneva aimed at curbing the nuclear arms race in Europe.

Mr. Schmidt, who has said Moscow could not hope to drive a wedge between Bonn and its NATO allies, had a telephone conversation Saturday with President Reagan. A senior West German Foreign Ministry official, Berndt von Staden, is due to fly to Washington on Wednesday to brief Mr. Schmidt on Wednesday to brief him.

(Continued on Page 2, Col. 1)



About 250,000 rightist sympathizers attended a rally Sunday in Madrid to commemorate the sixth anniversary of Franco's death, on Nov. 20, 1975. With their arms extended in a fascist salute, the demonstrators chanted repeatedly for the freedom of Lt. Col. Antonio Tejero Molina, the Civil Guard officer who led the storming of parliament nine months ago in an attempt at a coup.

Rumblings of Military Discontent Trouble Spain's Fragile Democracy

By James M. Markham

New York Times Service

MADRID — As Premier Leopoldo Calvo Sotelo labors to form a new Cabinet — and others celebrate the sixth anniversary of Franco's death — rumblings of discontent from the Spanish armed forces are troubling the country's fragile democracy.

On Saturday, Mr. Calvo Sotelo was elected unopposed as party president by the party's political

between Mr. Calvo Sotelo and Mr. Suarez, who had kept a shaky control over the UCD through Mr. Rodriguez Sahagun.

On Saturday, Mr. Calvo Sotelo was elected unopposed as party president by the party's political

committee. The vote was 181-0, but there were 44 abstentions.

During a visit to Zaragoza on

Tuesday, King Juan Carlos I made an appeal to politicians to put an end to their public bickering, which has been especially audible within the UCD.

"In order to be good, politics must be generous and sacrificing," the king warned. "So that it should merit the respect of everyone, politics should not decline into inefficiency, into the clinging to position, into internal struggles. Rather, it should have a dynamic of energy and resolve."

The king's remarks came after a trip to Madrid by Lt. Gen. Jesus Gonzalez del Vero, the captain-general of the Canary Islands. In meetings with a selected group of rightist politicians and businessmen, including Oscar Alzaga, an important lawmaker in the government's party, the 65-year-old general outlined what he portrayed as

the principal concerns of the armed forces. He also saw the king.

According to several figures who met the general and who requested anonymity, he expressed fears that the military might be reluctantly dragged into politics if the piecemeal disintegration of the government's party led to early elections and a victory by the opposition Socialists.

The military, the general reportedly insisted, wants to be allowed to handle promotions without interference from politicians. It is also worried about a threat to what Mr. Alzaga said he had received from the Japanese and a sum written down in two separate places on material in the safe.

The figure \$10,000, he was told, was written on both the envelope containing the cash and on "some kind of receipt."

The discrepancy "raises many unanswered questions," the official said. He added that if the discrepancy was not resolved a special prosecutor almost certainly would have to be appointed to look into the matter.

Japanese Reaction

[Katsumi Ishizuka, editor and spokesman of the magazine "Shinshomoto" (The Housewife's Companion), which carried the interview with Nancy Reagan, said in Tokyo that \$1,000 was the only sum intended as an honorarium for Mrs. Reagan and that \$1,000 as previously reported, according to an administration official.

The official, who asked not to be identified because of the sensitivity of the matter, said Saturday there was a discrepancy between what Mr. Alzaga said he had received from the Japanese and a sum written down in two separate places on material in the safe.

The figure \$10,000, he was told, was put by the figure on the envelope because "it's not our practice to put money figures on a *sharei* [honorarium] envelope." He added, "Anyway, we paid \$1,000 and we don't know anything about the \$10,000."

[Mr. Alzaga, reached by telephone at his Arlington, Va., home, declined comment Sunday on the envelope containing \$10,000. He also declined to discuss any aspects of the Justice Department investigation, UPI reported.]

The administration official said that William H. Webster, director of the FBI, had an "unauthorized" telephone conversation with Mr. Alzaga this fall about the bureau's investigation. The administration official said that Mr. Webster's

call to Mr. Alzaga was highly unusual. He said that around the time of this call, Mr. Webster also telephoned Edwin Meese 3d, the White House counselor, to tell Mr. Meese of the status of the case.

The FBI and the Justice Department generally regard it as improper for investigative authorities to discuss cases with those being investigated. The official said Mr. Webster had telephoned Mr. Alzaga and told him that the Japanese had corroborated Mr. Alzaga's contention that only \$1,000 had been intended for him.

In another aspect of the inquiry, the White House on Saturday issued a statement on Mr. Alzaga's behalf in which he acknowledged having received two wristwatches from the Japanese who interviewed Mrs. Reagan, but he said that they were personal gifts from one friend to another that were received before he took office and thus not subject to limitations on gifts.

"Two ladies" watches were given and accepted as a personal gift for my wife from a friend of many years' standing, as was the case with other gifts exchanged between our families

U.S. Marshaling Detailed Figures To Back Views of Soviet Strength

By Michael Getler
Washington Post Service

WASHINGTON — The State Department, in an effort to counter Soviet claims that President Reagan used inaccurate and "absolutely fantastic" figures last week in assessing the balance of atomic striking power in Europe, has released detailed figures to support the president's claim of a 6-to-1 Soviet advantage.

The State Department's accounting Friday is the latest round in a war of words and statistics between Washington and Moscow as they approach negotiations Nov. 30 in Geneva on limiting or eliminating missiles forces in Europe.

Although this numbers battle is part of a crucial fight for public opinion in Western Europe, where NATO wants to install new missiles if arms talks fail, it also reflects what the real fight will be about when the doors close behind the negotiators.

That battle will involve how many weapons are in each nation's arsenal and which should be counted in assessing the balance of intermediate- or medium-range striking power, meaning weapons that can be fired over distances of several hundred to perhaps 3,000 miles.

As Mr. Reagan proposed Wednesday, the United States would be willing to cancel the scheduled deployment of 572 Pershing-2 and Cruise missiles in Western Europe if the Soviet Union would dismantle 250 new SS-20 missiles and 350 older SS-4 and SS-5 missiles already deployed.

Mr. Reagan displayed charts

showing that the United States did not have comparable missiles in the field and showing that the Soviet Union had nearly 4,000 systems — missiles and airplanes — based in the Soviet Union or Eastern Europe capable of carrying atomic warheads. The United States was portrayed as having slightly more than 500, all of them in Europe.

It is these figures that the Kremlin called "absolutely fantastic."

The State Department said Friday that the Soviet Union had 3,825 medium- or intermediate-range nuclear forces, including 600 SS-20, SS-4 and SS-5 missiles; 45 new SS-12 or SS-22 missiles; 45 new Backfire bombers; 350 older Badger and Blinder bombers; 2,700 Fencer, Flagger and Fitter jet fighter-bombers, and 30 SSNs-5 submarine-based missiles. The aircraft designations are NATO code names for the planes.

The U.S. force, the State Department reported, amounted to 560 planes, including 164 F-111 and 265 F-4 fighter-bombers based in Europe; 68 F-15s, A-6 and A-7 attack planes on carriers in the Mediterranean, and 63 bomber versions of the FB-111 based in the United States but deployable to Europe.

The U.S. statistics are meant to show the Soviet Union as having a big edge that they should cut back. They also are meant to warn that if Moscow insists on charging that all U.S. planes in Europe ca-

measured 98 missiles and the French had 98 missiles and 46 bombers. The NATO total, he said, was 986. The comparable Soviet figure, he claimed, was 975.

Mr. Brezhnev noted that all "Western weapons could hit Soviet soil but that the Soviet weapons could not reach the United States." He also said that the new "60 missiles were meant to replace the older SS-4 and SS-5 missiles" deployed originally to cover the Western aircraft force.

Secretary of Defense Caspar W. Weinberger said Thursday that there was "no way" the United States would "negotiate away" the forces of other nations, meaning Britain and France.

Mr. Schmidt has said that he would act as "interpreter" of the West's standpoint on the issue and seek to bring about a summit meeting between Mr. Brezhnev and President Reagan.

The chancellor, who has condemned the buildup of Soviet SS-20 medium-range missiles, said he would tell Mr. Brezhnev that NATO deployment of 572 Cruise

missiles was inevitable if the arms talks did not produce results.

The Soviet-West German talks, starting Monday and spread over two days, follow sharp criticism from Moscow of Mr. Reagan's proposals for reductions in the nuclear arsenals. His espousal of the idea of the "zero option" would involve the scrapping of all Soviet medium-range missiles in return for cancellation of the NATO program.

Mr. Ceausescu said Mr. Reagan's move ranked with proposals by Mr. Brezhnev and others as an important step toward negotiations.

"I think all proposals should be considered and action taken in full responsibility by all sides so as to stop the string of new missiles and to achieve their complete removal," he said.

He continued: "Negotiations should be started to reach agreements acceptable to all sides, especially to ensure that no nuclear missiles of any kind are sited in Europe."

That committee was disbanded at Solidarity's first national congress in October.

The committee that held its convention in Radom is seeking to demand 100 people who it says are either in jail or facing legal proceedings for their political convictions.

Conversations with administration officials and senior diplomats indicate that there is a determined effort by Secretary of State Alexander M. Haig Jr. and others to convey the view that the two superpowers, despite their sharp differences, have been holding a serious dialogue that is expected to intensify in the near future.

Administration officials have said, however, that they do not expect rapid progress in the U.S.-Soviet talks on medium-range nuclear forces due to begin Nov. 30 in Geneva, even though the negotiations have received extensive publicity in the last week as the result of Mr. Reagan's offer to forge deployment of new U.S. missiles in Europe if the Russians dismantled those they have already in place.

This is because the two sides seem very far apart even on the basic question of which weapons systems should be proceeding for reduction of both medium-range and long-range nuclear forces.

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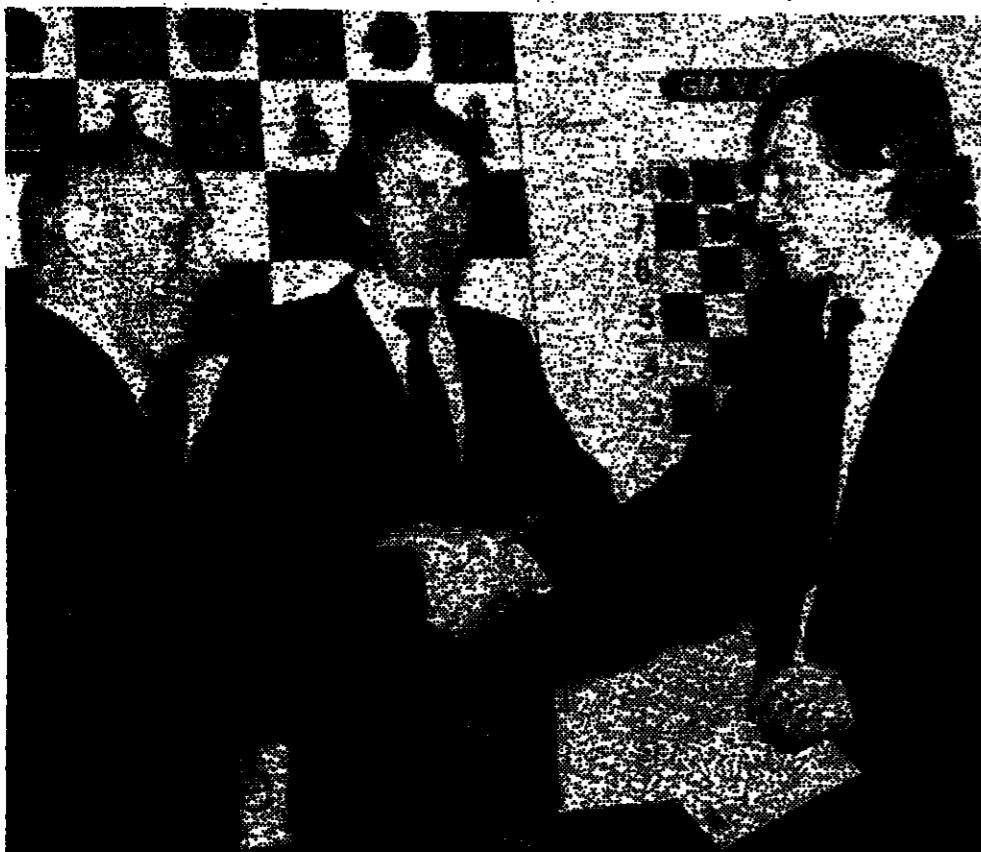
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Anatoli Karpov, right, is congratulated by Viktor Ivonin, Soviet deputy minister of sport, in Merano, Italy. Fridrik Olafsson, president of the International Chess Federation, looks on.

Brezhnev Salutes Karpov Chess Victory

From Agency Dispatches

MOSCOW — President Leonid I. Brezhnev has added personal congratulations to the official praise lavished on Anatoli Karpov for successfully defending his world chess title against Viktor Korchnoi, a Soviet defector.

Meanwhile, friends of the Korchnoi family said that Soviet authorities showed no sign of granting the defeated grandmaster's request that his wife and son be allowed to emigrate.

Mr. Karpov, 20, beat Mr. Korchnoi 6-2 in an 18-game match in the northern Italian mountain resort of Merano, winning his final game Friday. In 1978, he beat Mr. Korchnoi for the world title 6-5 in 32 games.

Pravda carried on its front page the text of a telegram from Mr. Karpov expressing "filiat gratitude" to Mr. Brezhnev and the Central Committee of the Communist Party for their support. Mr. Brezhnev responded with a telegram telling Mr. Karpov that "the Soviet people watched your performance with profound attention and received with great satisfaction the report on your victory." The telegram was published by Tass.

A Tass commentary by Soviet chess grandmaster Yuri Averbakh said Mr. Karpov's performance "enriched chess theory and practice with new ideas." Reflecting customary Soviet hostility toward defectors, the commentary said that "Korchnoi, throughout the whole of the match, sought to exert psychological pressure on the Soviet grandmaster."

CIA Offer Reported

Friends of the Korchnoi family said that Mr. Korchnoi's wife, Bella, who lives in Leningrad, "was very upset" at the outcome of the match. She was reported to be on her way to the prison camp where their son, Igor, is serving a two-and-a-half-year sentence for evading military service.

Mr. Korchnoi said Sunday he plans to meet U.S. politicians to bring pressure on Moscow to allow his wife and son to join him in Switzerland. Mr. Korchnoi defected in 1976. He said he also wanted the world's chess grandmasters to help him break what he called the boycott against him by Soviet players. They refuse to meet him except in world championship matches.

Mr. Korchnoi said the CIA had offered to help him before his match with Mr. Karpov. He did not say how he would be helped or how he had been approached. "If I had to play him again I would apply for their services," Mr. Korchnoi said. He did not elaborate.

Mr. Karpov said Saturday he doubted that he would play Mr. Korchnoi again. "I have played enough with Mr. Korchnoi," Mr. Karpov said at victory press conference. When the head of Mr. Korchnoi's delegation, Alfred Brodbeck, asked Mr. Karpov if he would petition Mr. Brezhnev for the release of Mr. Korchnoi's family, Mr. Karpov replied, "That question does not need an answer."

Mr. Karpov, looking debonair in a blue suit, white shirt, and blue-and-white striped tie, praised Mr. Korchnoi's play in some games, but criticized the challenger's preparation for the openings. Noting that his margin of victory was much wider than three years ago, Mr. Karpov said: "Even a world champion can learn from his experience."

Feeling of Disgust

Earlier, in an interview with Tass, Mr. Karpov made no secret of his feelings about his opponent, often referring to him as "Ioe." "I'll not conceal that Korchnoi's escapades at a certain stage of the match acted negatively on me," he said. "You see, I developed a feeling of disgust, coupled with a whimsical curiosity: What other disgusting actions is this man capable of?"

Fridrik Olafsson, president of the International Chess Federation, later handed Mr. Karpov a one-foot-high silver trophy at a closing ceremony. Mr. Karpov won the federation's first prize of 500,000 Swiss francs (about \$275,000).

Mr. Korchnoi, 50, looking subdued, came out of seclusion for the ceremony but did not make a statement. Aides said he was "stunned" by his defeat. If Mr. Korchnoi had skipped the ceremony, he would have been fined one quarter of his loser's purse of 300,000 Swiss francs.

Ulster: A Climate of Fear and Frustration Among Protestants as Violence Escalates

By William Borders
New York Times Service

NEWTOWNARDS, Northern Ireland — In the old market square of this little seaside town Monday night, the Rev. Ian Paisley and his militant Protestant followers will face a crucial test of strength. Mr. Paisley is promising to stage a huge demonstration and to display, in military formation units of the force he has assembled "to fight for the future of Ulster."

In Belfast about 200 Protestants, many masked and some carrying guns, paraded Saturday night in a show of strength through Newbuildings, a Northern Ireland border village. Reuters reported. Protestants have held similar marches before but this was the first at which they had produced guns.

[In a second parade Saturday night, 400 Protestants marched through Deserden, another village in the northwest.]

Mr. Paisley has been a front-line warrior in the unionist cause for nearly 20 years, but he says the struggle has come to a critical pass and it is time to do or die.

"I'm putting my future — even my life — on the line," he declared at the graveside of a fellow member of Parliament, the Rev. Robert Bradford, who was killed Nov. 14 by the Provisional wing of the Irish Republican Army. "The crisis of our generation is now upon us."

All Sides Concerned

Mr. Paisley's rhetoric is often overblown. But this time, people on all political sides in Northern Ireland are deeply concerned about the critical pass their troubled province has reached. Passions are running higher than they have in years, old-timers say, and Protestant plans for "Mondays" of protest are just one of the manifestations.

Mr. Paisley, whose speeches are full of references to fire and brimstone, is often ridiculed in London. But he is taken seriously in Northern Ireland, both by people who consider him a dangerous demagogue and by frightened Protestants who regard him as their only hope against betrayal.

"We got over laughing at Paisley years ago," a Belfast editor said.

Mr. Paisley and other militants appeal to Protestant fears and

Pope Names Africa Envoy
The Associated Press

VATICAN CITY — Pope John Paul II has named British-born Monsignor John Baldis, currently an attaché at the papal nunciature in Sudan, as the new papal nuncio to the Central African Republic and apostolic delegate to Chad.

frustrations that were heightened recently by the murder of Mr. Bradford. He was the first Northern Ireland member of Parliament to be killed in the latest phase of violence. Airey Neave, an Englishman who was the Conservative Party spokesman on Northern Ireland, was killed in London in 1979 by the Irish National Liberation Army, a radical fringe group. For the much larger IRA to turn its sights on the highest level of elected officials in the province seemed an ominous escalation of the violence. Mr. Paisley warned in Parliament last week that "before Christmas, there will be other violent seats in this House."

NEWS ANALYSIS

A second provocation, as Protestant militants see it, is the significant improvement in the relationship between Margaret Thatcher's British government and the government of the Irish Republic. Protestants fear rapprochement between Dublin and London; they think, probably correctly, that this could lead to changes in the constitutional status of Northern Ireland and what they ultimately fear, Irish reunification.

Mr. Paisley, Mr. Bradford and others who share their viewpoint want capital punishment restored for terrorist offenses. They urge a vigorous crackdown on the IRA. And they want more soldiers and policemen, better armed. In an attempt to mollify them, Britain sent in 600 fresh paratroopers last week, bringing its military strength in the province to more than 11,000. But officials dismissed the increase as cosmetic.

Since many nationalist guerrillas flee south across the border, Protestants want Britain to demand that the Irish Republic extradite them. But that seems unlikely, although the Dublin government has its own strict laws against the IRA, and terrorism in general, it would find it politically difficult, as a Dublin official said recently, "to send little Paddy or Mike up to Belfast to have a confession beaten out of him by Protestant cops or British soldiers."

Meanwhile, the killing goes relentlessly on. In the last week, the tempo of sectarian murder has risen above one per day and television news broadcasts seemed to have little to show except one long funeral cortège after another.

At one funeral — for an 18-year-old Catholic who apparently was shot at random in retaliation for the IRA killing of Mr. Bradford — a Belfast man who said he had never cared much about politics grew penitent as the hearse passed by. "I don't hate the Protestants, and I don't think most of them hate me," he said. "And yet, the two sides keep on killing each other. When will it end? I ask myself, and if it doesn't end, well then, what kind of future can there possibly be for us?"

7 Die in U.S. Plane Crash

Mr. Prior as he arrived for the funeral, screaming, "Go home, murderer." Pressing close, they tried to hit him. Mr. Prior, badly shaken, was hustled into and out of the church by a cordon of 20 policemen. As he took his seat among the mourners, a menacing hissing

France Redoubles Efforts to Fight Rising Unemployment

By Joseph Fitchett
International Herald Tribune

PARIS — The Socialist government of France, faced with rank-and-file complaints about delays in national changes, is redoubling its campaign to curb rising unemployment — the Socialists' overwhelming political preoccupation.

France's emphasis on finding more jobs contrasts sharply with the economic policies of other Western governments such as the United States, West Germany and Britain, which are tackling the slump — and unemployment — by a policy that includes tax cuts and strict wage limits to encourage investment.

Despite the French government's all-out assault, joblessness continues to worsen, and polls — six months after the Socialists took office — indicate few employers intend to hire more people. (Related story on China's economic tactics, Page 4.)

Stagnation has soured relations between the government and many French businessmen, convincing some Socialists that industrialists are deliberately, for political reasons, sabotaging the plans for economic recovery.

Taking the offensive last week, Prime Minister Pierre Mauroy decided to impose a set of fundamental economic reforms aimed at fostering employment. He announced that he will pass them by decree, bypassing parliament, where the planned nationalizations — the government's other economic plank — are ensnared by opposition delaying tactics.

"We are responding to Frenchmen's legitimate impatience and the urgency of the situation," Mr. Mauroy explained.

The jobless figure rose last week by 100,000 to more than 2 million. As it becomes harder to blame the trend on the previous government, Mr. Mauroy has pledged to turn it around in 1982.

Unemployment in France, far

from just an economic problem, has acquired a political and social intensity. The unemployment rate in France is 7.5 percent compared to 8 percent in the United States and Italy and nearly 10 percent in Britain. It is "culturally a very different shock," said Jean St. Georges, who heads a government anti-unemployment task force. Several officials said unemployment is traumatic because the French people traditionally expect the government to provide for stability — including job security.

Mr. Mauroy has started a series of visits throughout France to explain his planned incentives for employment. When he spoke recently in Marseilles, business leaders listened impassively, then told reporters they remained skeptical.

Despite the government's blandishments, a poll last week indicated that more than half of French small businesses have no intention of investing, and 80 percent have no plans to hire new employees.

Even in Lille, where Mr. Mauroy is the mayor, unions at city hall objected to his job-creation proposal — cutting the workweek immediately to 35 hours and hiring 250 people to take up the slack because it would have required occasional work on Saturday.

The government's strategy

centers on measures to make more jobs out of the present workload. The planned decrees will increase annual vacation to five weeks, lower the retirement age to 60 and cut the workweek to 39 hours, as a first step to 35 hours by 1985.

As many as 700,000 other new jobs might be gained if another government effort succeeds in stopping people with government pensions from taking new jobs after they retire. This would create more job openings for the 500,000 young people entering the labor market each spring.

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In a statement after publication, the man named said the tenor of the Observer article was "false and malicious" in that it implied he was involved in espionage. He said he had instructed his attorney to file suit for libel.

The injunction had prevented The Sunday Times from naming what it said last week were two alleged spies who it said had penetrated the U.S. government and the United Nations in the 1940s. [But on Sunday it quoted the man as saying all the reports were false, that he had been the victim of a smear campaign and that he would take action against anyone suggesting he was connected with Soviet espionage.]

In addition to the competitive pressures of British journalism and some tempestuous leaks from the deeply divided intelligence community, the enduring media fascination with spy stories is explained by the recent realization of the extent of Soviet penetration of the British government and intelligence services, the long government secrecy about most of it, the tantalizing mystery that still shrouds those events and the traditional British love of detective and spy thrillers.

Suspicion Are Cast

In recent weeks, two confessed wartime spies in British military intelligence have been exposed, suspicion has been cast on many more people alive and dead named in books and newspaper articles, and an argument has been revived inside the intelligence community

over whether the late Sir Roger Hollis, head of Britain's MI-5 internal security service from 1938 until 1966, was actually the most highly placed Soviet spy of all.

The Sunday Times scored the latest coup by reporting that Leo Long, a wartime British military intelligence officer and former Columbia Pictures executive, had confessed in the mid-1960s to being a spy recruited by Mr. Blunt. Mr. Long confirmed the report in a series of interviews after the Times' story was published, and said he was interrogated about his activities but never prosecuted.

That was followed Sunday by the Sunday Times' story mentioning the film producer.

The Sunday Times' executive editor, Don Berry, admitted that the subject of the story was a significantly "little fish" than some of the others, but contended that "every time a little bit sneaks out, it confirms that we still don't know the full story of those years."

"It's a wonderful sport, isn't it, chasing spies?" he added. "Each big new revelation starts it all over again, and we join the chase. I think there is a lot more to be told, and we're going to continue pursuing it."

Aerial spraying of the pesticide malathion was begun after the September discovery, but a series of early autumn storms probably washed much of the treated pesticide from trees and shrubs, Mr. Overmiller said.

The fly, which can damage or destroy about 250 varieties of fruits and vegetables, first was discovered in California's central Santa Clara County in June 1980. It survived ground eradication efforts throughout last winter.

The Observers also joined the hunt with excerpts from a new book by Nigel West, a free-lance journalist, that hinted at Mr. Long's recruitment as a spy by Mr. Blunt at Cambridge University. Mr. West also brought to public attention after nearly 40 years a former British Army officer named Ormond Uren, who was court-martialed during World War II and imprisoned for passing some information about his work in a sensitive military installation to

who want to avoid creating permanent jobs that are complicated and expensive to liquidate. But many employers have responded by simply dropping their temporary help and letting extra work pile up. Similarly, an initial Socialist incentive plan for untrained youths has had fewer corporate takers than a similar plan under the previous right-wing government.

Economists and businessmen say that it is not clear whether the government, while trying to create more jobs, will restrain wages, which have increased steadily for more than a decade.

"People are going to have to accept stagnant or even falling purchasing power if employment is to be equitably shared," says Edmond Maire, leader of the Confédération Française Démocratique du Travail trade union.

Aides have hinted that government bureaus and nationalized industries — soon to be nearly 20 percent of French production — and nearly all the banking sector — could be favored with contracts over unresponsive private firms.

Already, the government has hired more civil servants for the bureaucracy.

Meanwhile, French demogra-

phers contend that the unemployment problem will start to solve itself in 1983 as the last products of the postwar baby-boom reach maturity. Many of the people put on short-time now may be needed back then.

China Finds Jobs for Millions of Unemployed, but a Vast Problem Remains

By Michael Parks

Los Angeles Times Service

SHANGHAI — China has found jobs for more than three-quarters of its urban unemployed, a restless army of more than 30 million only three years ago, in one of the biggest employment programs ever undertaken, according to government figures.

Jobs were found for more than 29 million people, including new high school graduates, since 1977, reducing the number of people out of work to about five million, according to State Labor Bureau figures.

Still, 30 million more jobs are needed for urban workers by 1985 if the problem is to be solved, officials acknowledge.

About half the jobs have been created in state enterprises, many of which are already overstuffed, but most of the others were found in newly formed urban cooperatives, which run small shops, restaurants, hotels and service companies. About one million people have gone into business for themselves.

In the process, long-standing labor policies, including the promise of lifetime state employment for every urban worker, are changing in what some officials say will become "an overall and radical reform."

Even as it places unemployed youths in new jobs, the government warns that the state does not owe them work, that in the future people will be expected increasingly to find employment for themselves.

With the present "labor surplus," as Peking termed the unemployment when it reached more than 20 percent of the urban work force, competition has been introduced into the job market. State enterprises are using examinations to choose their workers, rather than merely accepting those assigned to them and putting promotion on the basis of skill and performance.

And for the first time since the Communists came to power 32 years ago, a number of workers are being fired for repeated breaches of labor discipline.

"Unemployment had reached proportions of a full-scale social crisis, and major efforts had to be exerted and are still required to deal with it and its consequences," Zhang Zhiqiang, deputy director of the Shanghai Labor Bureau, said in an interview.

He said that problems "had grown and grown" during the Cultural Revolution but that nothing could be done while the radical leaders known as the Gang of Four were in power.

Shanghai faced the most difficult situation. More than one million of its youth had been sent to rural areas during the decade-long Cultural Revolution to work with the peasants and they began returning in 1977, out of work and angry. Many of those who had stayed in the city had not been given jobs, and they too were angry.

With an unemployment rate of more than 25 percent, largely concentrated among those under 30 years old, the city's social fabric began to shred. Crime soared and street gangs multiplied.

When demonstrations paralyzed the city in February, 1979, the government finally moved, developing a jobs program as a top priority not only for Shanghai but for the whole country.

State-owned enterprises were allocated unemployed youths, although this often led to make-work projects. Neighborhood committees, a basic element in urban society, organized many others into small co-ops to provide services. Parents were encouraged to retire early to make way for their children. Self-employed tradesmen and repairmen were encouraged again after a 20-year campaign against them as "bourgeois remnants."

Jobs are said to have been found for more than one million young workers in Shanghai since 1977, increasing the urban work force to 4.5 million, and the number of unemployed has been reduced to 30,000 plus those who just finished school and are awaiting state job assignments, a total of 150,000.

"By the start of 1981, the unemployment problem was almost resolved," Mr. Zhang said, adding that the jobs program was being developed further to take workers from overstuffed factories.

China's success nationwide is said to be almost as dramatic. Most of the 13 million youths sent to the countryside from 1966 to 1976 have been able to return to urban jobs, according to officials, and 24 of 29 provinces and major cities will have found employment this year for all those who finished school up to 1979.

Grappling with such large-scale unemployment has brought other changes in labor policies. "In the course of our work," Mr. Zhang said, speaking not only of Shanghai but of the country as a whole, "we found that some of

our policies and practices were wrong or no longer suitable."

The state should no longer assume the responsibility for finding jobs, Mr. Zhang said, and probably should not even be the employer of last resort. If workers are to be guaranteed jobs, then the whole community must be involved, he said, emphasizing the greater role for cooperative ventures. But the individual should perhaps accept equal or even primary responsibility and should be freed from present regulations to find his own work, he said.

The two labor economists writing in Red Flag, Zhuang Qidong and Sun Keliang, made the same point, criticizing "too rigid management" of labor resources in the past and calling upon the state to give up its authority to assign all urban workers and end its guarantee of an "absolutely secure job."

Xue Muqiao, one of China's top economists and the leading advocate of increasing the role of market forces in the economy, has argued for almost complete freeing of workers from the system of state assignment, asserting that central planning and allocation of labor resources builds in low productivity and perpetuates poor management.

But he has been vigorously opposed by other economists, who fear the loss of control such decentralization would bring, and Mr. Zhang and Mr. Sun said that the "overall and radical reform" China needs in its labor policies "cannot be achieved overnight."

In South Asia, Electoral Credibility Is Crucial But Elusive

By Michael T. Kaufman

New York Times Service

NEW DELHI — As vote-counting in Bangladesh's second direct presidential election was nearing completion last week, Abdus Sattar, the 75-year-old jurist who was clearly winning, declared that the poll had reaffirmed the country's faith in democracy and that the election was "the fairest ever held in this part of the world."

But Kamal Hossain, a former Oxford University law professor who ended up a distant second in the 26-candidate race, contended that the results were fraudulent. He said intimidation had kept his supporters from the polls, ballot boxes had been stuffed and election-rigging had been widespread.

There was no way categorically to uphold or refute the conflicting assessments. Foreign journalists and Western diplomats, who were given freedom of movement, saw no evidence of violence or bullying. But at most, they covered only 100 of 21,000 polling places. Even President Sattar acknowledged there had probably been some irregularities, endemic, he said, to the region. He insisted they were

minor and could not have reversed his landslide victory.

But Mr. Hossain's Awami League threatened to take to the streets to protest the results. In South Asia, where democracy is gained a vulnerable toehold, credibility in the electoral process is both essential and rare. India, Sri Lanka and Bangladesh are among the handful of Third World countries with multiparty democratic

systems. In Pakistan, which had democracy and lost it, the idea of free and fair elections is still widely yearned after — and vaguely promised by the military government.

Making democracy work has proved as difficult in these countries as growing more food or generating sufficient energy. In Pakistan, election-rigging by a highly popular but evidently insecure Zulfikar Ali Bhutto prompted demonstrations that led first to the military takeover and later to Mr. Bhutto's conviction and execution for the murder of a political opponent.

And in India, after a court ruled that an overwhelmingly popular Indira Gandhi had won a rigged parliamentary election, she responded by declaring the emergency rule in 1975, which led eventually to the movement that ousted her in the 1977 elections. Similarly, in Sri Lanka, where former Prime Minister Sirimavo Bandaranaike had canceled scheduled elections, she was barred by Parliament from participating in politics.

A political controversy is brewing in India over the cancellation last week of a rerun of a parliamentary by-election that had been

nullified because of violence. In this race, in the Garhwal district, H.N. Bahuguna, an independent candidate who had left Mrs. Gandhi's party expressing loud disapproval, was given a good chance for victory.

Complaints of Violence

But at the election in June, his people complained to the election commission that armed police from four adjoining states shot at and chased his supporters at the polls. A new election was ordered, but last week the state government canceled it, contending that a statewide prison strike was needed to insure peace at the polls. Aides of Mr. Bahuguna said the postponement was a ploy by the ruling party to force him to exhaust his campaign funds.

Even without outright chicanery, elections in these poor and densely populated countries are highly risky undertakings. For example, how does a candidate get his program across when up to 70 percent of the electorate is illiterate?

In Bangladesh, the election bal-

lot contained a symbol — a ladder, bicycle, elephant, sheaf of rice or boat — for each candidate on the list. Some symbols have so much totemic or cultural significance that they are passionately fought over.

Then there is access to the media, which operate under an element of government control in Bangladesh. While leading newspapers covered the speeches of all main candidates, they clearly gave bigger headlines and larger crowd estimates to Mr. Sattar, who became acting president when Ziaur Rahman was assassinated on May 30.

Slanted Coverage Charged

State television sought to give the appearance of fairness, but the Awami League contended that coverage was slanted against it. In addition, as acting president, Mr. Sattar had the use of a helicopter to fly around the country; his opponents had to rely on trains and cars. To help turn out crowds, students were reportedly paid up to \$2 to attend political rallies for any of several parties.

Ballot-counting was also an issue. In Bangladesh, the count is made at the polling place. Some political scientists argue that this discourages participation by sizable minorities — such as the Hindus, Buddhists and Christians who may fear retribution if their votes show up as very different from the dominant group.

Ballots in India are moved from polling places to a central district for counting, precisely to remove such pressures. But in India, as elsewhere, cultural hierarchies and cultural oppression remain real. The term "vote bank" is in common use in India, signifying blocs of votes that can be delivered by the command of a local leader.

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Pravda contended Saturday that the Reagan administration was indirectly to blame for the overflights, saying that the Aeroflot plane had been told to deviate from its flight path by air traffic controllers who were working in a tense and difficult situation that had developed after the administration fired "all skilled aviation flight controllers" who had gone on strike in August.

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Tiny Islands off Sinai Cause Furor in Israel

By William Claiborne
Washington Post Service

JERUSALEM — Two minuscule, bird-inhabited islands in the Strait of Tiran have become the object of a minor furor on the basis of conjecture that they could be seized by Saudi Arabia after Israeli forces withdraw from the Sinai Peninsula on April 25.

While there have been no overt threats by anyone to take control of the islands, Israel's fiercely competitive press has seized upon the issue.

Saudis May Seize Islands Off Sinai, said a front-page headline Friday. The story emphasized the strategic importance of the two

sand spits at the mouth of the Gulf of Aqaba. Israeli radio and television picked up the theme, dredging up old fears of Arab blockades of the Strait of Tiran and reviewing in ominous tones Saudi territorial claims to the islands.

Settled Long Ago

The tempest seems more illustrative of Israel's jittery mood about Saudi Arabia in general and the tempo of the free-wheeling press on a slow news day than anything else. Nevertheless, it prompted Israeli government officials to sift through long and rigid texts of the official protocols of the Sinai withdrawal and then insist that control of the islands was clearly spelled out in the Camp David peace accords.

As far as we are concerned, the issue was settled long ago," a government spokesman said Friday. "The islands are clearly in the demilitarized zone and will be controlled by the multinational force."

The U.S.-sponsored peacekeeping force will police the demilitarized zone in the Sinai after the Israeli withdrawal.

The island issue first surfaced when a reserve army general, Rehavam Zeevi, writing in the newspaper *Yedioth Ahronoth*, proposed that Israel not abandon control of Sanafir and Tiran islands, because legally they belonged to Saudi Arabia and not Egypt. The islets are off the northwestern coast of Saudi Arabia.

Mr. Zeevi, former chief of the Israeli Army's central command, warned that Saudi Arabia could reassess its sovereignty over the islands and use them to block access to the Gulf of Aqaba and cut off Israel's port of Elath.

The Saudi Arabians first claimed the islands in 1949, but a year later, amid fears of an Israeli attempt to seize the straits, signed an agreement with Egypt in which Egypt "effectively occupied" them and defended them against possible Israeli attack. They remained under Egyptian control until Israel occupied the Sinai Peninsula in the 1967 six-day war and took control of the straits.

Israeli View

Israeli officials said Friday that by signing the peace treaty with Israel and specifically including Sanafir and Tiran islands on the treaty map, Egypt asserted its sovereignty over the islands. They signed, Saudi Arabia said nothing about the two islands.

The last Saudi assertion of sovereignty over the islands, apparently, was in 1957.

Moreover, Israeli officials said, the islands are clearly indicated in "Zone C" of the treaty withdrawal maps, which is to be controlled by the multinational force.

Arnold Taylor

JOHANNESBURG (AP) — Former world bantamweight boxing champion Arnold Taylor, 37, of South Africa was killed Sunday in a traffic accident, police said. He won the bantamweight title in 1973 and lost it the following year.

Andreina Pagnani

ROME (AP) — Andreina Pagnani, 75, one of Italy's most popular actresses, died Saturday of cancer. She was known to television viewers through her role as the wife of French fictional detective Inspector Maigret in a series of programs based on Georges Simenon's novels.

Arthur Gershwin

NEW YORK (NYT) — Arthur Gershwin, 81, a composer and the younger brother of George and Ira Gershwin, died Friday. Mr. Gershwin's career was overshadowed by those of his two older brothers. But he was a successful composer and producer of his own. With Fred Sphelman, he composed the music for "A Lady Says Yes," a show that ran on Broadway during most of 1945.

Pulitzer Board Changes Procedures In Response to Fraudulent Article

New York Times Service

NEW YORK — The board that decides on journalism's most coveted award, the Pulitzer Prize, has adopted new procedures to deal with some of the problems raised last spring when a prize-winning article about an 8-year-old drug addict was exposed as a fraud.

The Pulitzer Prize Board said Friday it would take two days rather than one to decide on the 20 winners it chooses at its March meeting. The extra day, it said, will give it time "to review nominations even more exhaustively than in the past" and to consult with members of the nominating juries about specific entries.

Individual juries read all the entries for their category and select three for the board's final decision. The juries generally rank the nominations in their order of preference, but the board has the final authority on which entry will win the prize.

Last spring, an article called "Jimmy's World," written by a Washington Post reporter, Janet Cooke, 26, was nominated in the local reporting category. The board did not give it that prize, but moved it to the category for feature writing and declared it the winner there.

Even before the disclosure that Miss Cooke's article was a "composite" account of a nonexistent young drug addict, members of the jury for feature writing complained about the decision. They said the piece would have been rejected under their guidelines that ruled out stories in which the subject was anonymous.

In a related matter, the board unanimously reaffirmed its award to Teresa Carpenter of *The Village Voice*, to whom it gave the prize for feature writing after *The Washington Post* returned Miss Cooke's award. That selection had been criticized by the National News Council, which said that parts of a story she wrote about the man accused of killing former New York Rep. Alard K. Lowenstein were "reckless and speculative."

U.S. Move on 3d World Press Called Naive by Media Official

New York Times Service

WASHINGTON — The chairman of the International Press Institute has charged that the United States was preparing to make a financial contribution to the international development program through the Agency for International Development. Mr. Irani was in Washington to argue at the State Department against such a move. Any contribution, he said, would only finance propaganda.

Mr. Irani, chairman of the Zurich-based organization, which monitors challenges to journalists and news organizations around the world, said that American support for a "new world information order," was moving toward support of projects contrary to the aims of a free press.

The communications development program, now being organized within Unesco, would provide financial and professional support for press and broadcasting projects in developing nations.

The development program was largely a U.S. initiative, which the State Department's Bureau for International Organization Affairs has supported in the hope that material aid to poorer nations would dampen criticism that Americans remain insensitive to the needs of the Third World's press.

Mr. Irani, publisher of the Indian daily *The Statesman* and one of the Third World's most outspoken critics of the Unesco campaign, said that Friday that by signing the peace treaty with Israel and specifically including Sanafir and Tiran islands on the treaty map, Egypt asserted its sovereignty over the islands. They signed, Saudi Arabia said nothing about the two islands.

The last Saudi assertion of sovereignty over the islands, apparently, was in 1957.

Moreover, Israeli officials said, the islands are clearly indicated in "Zone C" of the treaty withdrawal maps, which is to be controlled by the multinational force.

U.S. Law Agencies Complain of Budget Cuts

Officials Say That More Reductions Will Further Hamper Crime Fight

By Mary Thornton
Washington Post Service

WASHINGTON — The Federal Drug Enforcement Administration has run short of funds for reimbursing its agents for hotel rooms and meals while out of town; one group of agents in Detroit has been sleeping on rented cots and cooking on a hot plate while on an out-of-town assignment.

A spokesman says the agency also has decided to start new investigations, has told employees to travel only to make court appearances, and in some offices has ordered 50 to 60 percent of its agents off the streets because there is no money for gasoline.

Stance Called Inconsistent

The Bureau of Alcohol, Tobacco and Firearms is also running short of funds. The administration plans to eliminate the bureau during the next few months, but in the meantime agency employees have been buying gasoline with their own money in order to make court appearances.

Two weeks ago in Tennessee, the bureau, for lack of money, backed out of an undercover deal to buy dynamite and in several instances, and in Florida the agency canceled an arrangement for a car full of plastic explosives.

Throughout the country, federal law enforcement officers have offered conditionally to free Alaja Wesolowska, a UN secretary who was imprisoned in August 1979 on charges of spying. Officials here say they said the condition was not taking effect. Those reductions, they say, will only make the problem worse.

The agency and some who support them in Congress find it ironic that an administration that had campaigned against crime is now reducing funds for fighting crime.

Rep. William J. Hughes, Democrat of New Jersey and chairman of the House crime subcommittee, charges that the Reagan administration has been "totally inconsistent. Instead of supporting the fight against crime, they are retreating."

The Democratic National Committee has sent out material to likely 1982 candidates urging them to capitalize on the issue.

The agencies have sent the Office of Management and Budget analyses of how the appropriations cuts the president proposed in September would affect them in the current fiscal year. These have leaked out as the agencies worked to forestall the cuts.

President Reagan proposed in September that appropriations for most agencies be reduced 12 percent below the levels he first recommended in March. For a few agencies, such as the FBI, he proposed lesser cuts. He has since backed down from these September proposals somewhat, but at the same time the budget office is considering further cuts for fiscal 1983.

During the 1981 fiscal year, the FBI had a budget of \$683 million. In March, Mr. Reagan proposed

raising it to \$739 million, but the administration in September revised that request downward to \$694 million. The Drug Enforcement Administration budget was \$216 million last year. The March figure was \$228.5 million, and the latest request is \$201 million. For the Bureau of Alcohol, Tobacco and Firearms, last year's budget was \$150 million, the March request was \$155 million, and the latest request was \$120 million.

The FBI has already put a freeze on hiring and restrictions on travel. Mr. Reagan's September proposal that it trim spending an additional 6 percent would cause "serious problems," a bureau source said.

The analysis prepared by the FBI for the budget office says the

bureau would have to fire the equivalent of 1,006 full-time employees, more than 5 percent of its total staff. It adds that "probably no new undercover operations will be authorized" against organized crime or white-collar crime in fiscal 1982.

It said the cuts would require a reduction of nearly one third in FBI investigations of gambling, prostitution, arson for profit, gang and slayings and pornography.

Drug administration officials say their agency already has severe problems, and they worry that the president's plan for additional cuts in the current fiscal year will make things worse.

Agents say their investigations are a shambles because of funding inconsistencies that have caused

and prevent her from telling her story abroad. She was arrested while vacationing in Poland and has been in prison ever since.

Another Report

Mr. Suy also disclosed that he was approached Thursday by a senior East German diplomat who had "good news" regarding Percy Stulz, director of the Cultural Heritage Division of the UN Educational, Scientific and Cultural Organization. He was seized while vacationing at his home in East Germany in March, 1980, and was accused of "activities against the state."

According to Mr. Suy, the UN legal counsel, said he was offered the deal Wednesday by Eugenio Wyner, the Polish delegate here. A UN committee was to begin debate Monday on the Wesolowska case and similar cases in other countries.

Mr. Suy said he told Mr. Wyner that the United Nations could not dismiss an employee without independently determining the facts of the case. Mr. Suy said this would mean interviewing Miss Wesolowska, examining the charges against her and talking with Polish officials.

According to Mr. Suy, the Polish delegate said he would pass this message to his government.

If Miss Wesolowska is dismissed, the officials said, the Warsaw authorities would be able to keep her in Poland indefinitely.

Kowloon Fire Levels Huts

The Associated Press

HONG KONG — About 6,000 squatters were left homeless Saturday night by a seven-hour fire that destroyed more than 1,000 single- and two-story wooden huts on a hillside on Kowloon peninsula across the harbor from Hong Kong island, a government spokesman said. Nine persons were injured.

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200th Person Dies From Spanish Oil

Reuters

MADRID — A 19-year-old Madrid woman has become the 200th person to die from the effects of consuming adulterated cooking oil, but doctors have expressed optimism that the final toll will be less than had been feared.

Doctors have noted that the number of people hospitalized by the mixture — which contains rapeseed oil treated for industrial use — has fallen from 1,000 to 600, and some have revised their estimates of the final death toll from the thousands to several hundred people.

Though the medical reasons for the deaths remain obscure, doctors have noted that some patients have suddenly lost all symptoms, which can include paralysis, high fever and weight loss.

Blast Kills Girl in Naples

The Associated Press

NAPLES — A girl, 12, died and 13 persons were injured Saturday when a gas cylinder blew up in an apartment building in Afragola, six miles (10 kilometers) north of here, police said.



Wheredo we come from?

Every one of our cars is made up of ten thousand and more parts. They come from BMW's own plants and from numerous other suppliers at home and abroad.

Today, nearly 10% of all parts — an amount equivalent to 500 million D-Marks in 1981 — were bought from abroad, with well over half of these coming from the "domestic" European market. This illustrates just one way in which BMW is increasingly contributing towards international, and especially European, economic co-operation: and it's an example of mutual trade-balancing that sets BMW clearly apart from other car manufacturers, who are only too happy to sell their products in Europe, but seldom do any buying over here.

Over a thousand firms supply individual parts and components, machinery and materials for the current BMW models. In this way they make a significant contribution towards establishing the high quality, punctual delivery and competitive pricing of BMW products; because a good 50% of BMW's total work output is involved in purchasing and logistics.

Suppliers from the many different countries and product areas, working to specifications laid down by BMW research and development experts, develop numerous components of widely varying complexity: they are also our partners in exploring and trying out new technologies. Many specialist firms also carry out construction and design work in close co-operation with BMW; they produce machine-tools; they test our levels of skill and know-how.

BMW development and purchasing specialists together choose suppliers, who can contribute not just a product, but also mutual experience and combined testing procedures. The results provide a continuous flow of new ideas that go directly into BMW's planning and products. That's another reason why every BMW can be called a "good European" in the best sense of the word. It's also why it's a car that gives you the confidence of knowing that you're always acting in the common interest: in your interest and in Europe's.



BMW AG, Munich

American-Soviet Dialogue

President Reagan's proposal to bar land-based intermediate-range missiles from Europe won the spotlight in his debut as an arms controller last week, and deservedly so. Yet his address contained a general approach to negotiations with the Soviet Union, and a specific approach to the mutual reduction of strategic arms, with far-reaching implications for relations between the two great powers.

Very quietly, Mr. Reagan did something important. He distanced himself from a whole set of ideas about the nature of the enemy that he had repeatedly cited and that undermine the very idea of negotiations. He did not say the Soviets cheat, lie and cannot be trusted. He did not say they are bent on expansion and conquest and can be dealt with only by power. He did not say they have a demonic ideology and are evil at heart.

He accepted the familiar but unavoidable premise that all other presidents have accepted: that the Soviets must be dealt with somehow. Without further ado, he stepped up to the plate and took a swing. Leonid Brezhnev, the Soviet president, had taken the first swing in his *Der Spiegel* interview of Nov. 2. Mr. Reagan replied specifically to him. It is not only that negotiations, in this instance on theater nuclear forces, will begin on Nov. 30. In a real sense — since both leaders are coming out of their corners, preparing concrete proposals on a wide range of subjects, and starting to seek public support — negotiations have already begun.

But this is not all. On arms control, again quietly, Mr. Reagan made a major shift. He abandoned his old theory that arms control is out of the question without a prior or parallel agreement with the Soviet Union on the rules of international conduct (Afghanistan, Cuba, etc.). That old wearying word "linkage" was reduced at one swipe from a concept effectively barring the way to an arms control dialogue, to a simple fact of life that nations must accept as a political reality but that they must not allow to dominate their policy, or to substitute for policy. From now on, Mr. Reagan made clear, there is only one precondition to American participation in arms control talks with Moscow: adequate preparation.

That is not to say Mr. Reagan is operating without a guiding intellectual rationale for arms control. He has a new one, which is gradually becoming known. It is that arms control can help convert the Soviet Union from a challenger of order to a co-guardian of order. As administration strategists see it, the chief danger to world peace now comes not so much from a Soviet threat of war as from a Soviet threat of nuclear blackmail; and arms control, backed by a readiness to build new arms and to use power when necessary, is the way to turn this around. If this sounds as though Mr. Reagan has reinvented the wheel, or invented a new wheel quite like the old one, there should be no complaint as long as he appears to be rolling.

He does appear to be rolling. It turns out that the administration has begun transmitting some of its ideas on strategic arms to the Kremlin. What is more, in some measure the Kremlin is responding. The administration takes the view that the Soviets cannot be expected to agree with the new American ideas unless they understand them. So the Soviets have been told that the principal old measure of strategic equality, the number of deployed launchers, has been undermined by the march of technology and time, and that new measures, centering on equivalence of capacity for deterrence, must be found. The administration awaits a reply.

The Soviets have also been told that, for verification, the old electronic spies in the sky ("national technical means") must be supplemented by what President Reagan called "openness and creativity," meaning on-site procedures. It was put to Moscow before Mr. Reagan spoke, and Moscow privately responded. Mr. Brezhnev then went public with the response, telling *Der Spiegel* that "national means must have priority" but that "some other forms of control might be worked out, given confidence." Interesting.

In brief, one cannot say where they will go, but things are moving. This is far and away the most important international development since the Soviet-American dialogue was broken as a result, primarily, of events in Iran and Afghanistan some two years ago.

THE WASHINGTON POST.

Doubts Foment a Policy

Until last week, the Reagan administration's foreign policy was little more than a booming weapons business. Outproducing the Russians was going to make them more docile, or broke. Selling the Arabs more arms would win security for Israel. Replacing Soviet arms with American arms in Central America would pacify revolutions. Selling arms to Pakistan would keep it non-nuclear. The nostalgia for a "two-Chinas" policy would be served by sending weapons to both.

With the exception of Namibia, Reagan looked at the world through gun sights. Harping on American vulnerabilities and Soviet power, he left the impression that he was too weak to define his diplomatic aims or to negotiate with anything but a stick.

Yet he boasted that all this had produced "rather astounding" diplomatic achievements, a claim that was as delusory as calling his diplomatic team a "very happy group." The sad fact is that in the year since the election, the happy Reagan team emphasized brawn and neglected policy, to the point where it spoke mostly bitter contradictions.

And all this made the Russians look good, even though they hold a weaker hand everywhere from China clear round to Afghanistan and Poland. The Reaganites even let Brezhnev trade freely on Europe's nuclear fears, clumsily living up to his caricature of them as reckless cowboys.

Until Wednesday, it was Brezhnev's journey to West Germany, Sunday, that finally drove Reagan to his first thoughtful foreign policy speech and to a new tone of voice. The president's main point was not his offer to clear Europe of continental missiles. It was to promise, belatedly, that he would lead the allies in seeking a prudent limit on such missiles, and to acknowledge that balance in Europe also inevitably requires a new Soviet-American accord on all nuclear arms.

Reagan was responding to the desperate

pleas of allied leaders. They have been hard put to defend the deployment of new missiles on their soil without a convincing effort to preserve *détente*. And, as Washington should have known, there is more at stake here than disarming the anti-bomb marchers.

The diplomacy of Europe today turns on the future of West Germany. Although aligned with the West, it aspires, historically and economically, to be a bridge to the East. The Russians, having tied East Germany to their empire, prey upon this yearning and seek to spread their influence and diminish America's with a new generation of independence-minded Europeans.

Chancellor Schmidt's West Germany wants both the economic benefits of *détente* and the protection of America. But his Social Democratic Party, like other European parties, has grown a strong neutralist wing. As Henry Kissinger warned President Nixon more than a decade ago, U.S. bellicosity will only promote the alliance's disintegration.

If Washington deals with Moscow over Europe's head, Kissinger advised, the allies will seek their own imprudent deals. Yet, paradoxically, "the same would happen if the United States stayed in the trenches of the Cold War" and tempted allied leaders to appear before their superpowers as "mediators between bellicose superpowers."

Europe's dangerous doubts are not about the perfidy of the Kremlin but the wisdom of America. Now Reagan has finally faced them. That is why his speech was welcomed as not only a stitch in time but perhaps the start of a whole policy cloth.

The invigorating lesson for the allies was that they count, after all: they significantly moved a president. The lesson for Americans should be equally clear. The nation's goal cannot be merely strength. A sound foreign policy needs clear objectives that strength and wit can reasonably attain.

THE NEW YORK TIMES.

Other Opinion

Surely Politics and Sour Chess

The world chess championship, which was won Friday by Mr. Anatoli Karpov, very much as expected, has left a rather sour taste. The quality of the chess, according to experts, was poor. Mr. Viktor Korchnoi, the embattled challenger, did not do himself justice. Now that the championship is over and the coveted title remains in the Soviet Union, it is surely time for the Soviet authorities to do the decent thing and let Mr. Korchnoi's

— From The Times (London).

Nov. 23: From Our Pages of 75 and 50 Years Ago

1906: Peary Relates Trek

NEW YORK — In a simple, strong narrative cabled from Château Bay, Quebec, Commander Robert E. Peary recounts his splendid dash for the Pole, wherein he achieved a new farthest-north record and only missed the goal of his endeavor through lack of supplies and dogs at a crucial moment. After great tribulations, he reached 87 degrees 6 minutes on April 21. "I thanked God," he says, "with as good grace as possible for what I had been able to accomplish, though it was but an empty bauble compared with the splendid jewel for which I was straining my life. But looking at my dogs and nearly empty sledges, I felt I had cut the margin as narrow as could reasonably be expected."

WASHINGTON — The Republican Party, already faced with a minority in the House and making a desperate effort to retain control of the Senate, appeared to have another fight on its hands today. Sen. Joseph T. Robertson (Arkansas), Democratic leader in the upper house, indicated he is not in accord with the increased tax legislation program that GOP leaders have brought forward to date only in general terms. The Democratic leader left no doubt but that his party, like the Republicans, looks upon some upward movement of taxes as unavoidable, but he strongly urged moderation, though urging that the Democrats would operate with the White House on "wholesome legislation."

The View From Hamburg After the Arms-Talks Gambits

By James Reston

HAMBURG — This old seafaring city has been watching the political winds since the 13th century and observes the present East-West storm with a weary countenance. Most of the Gulf of Hamburg was totally destroyed in World War II and has now been restored and modernized with fine taste. The city is only 20 miles from the Soviet tanks in Communist East Germany.

It is also a center of the West German publishing houses that have dramatized the European anti-nuclear peace demonstrations.

Accordingly, it is perhaps less impressed by President Reagan's nuclear arms proposals than the present West German government in Bonn. But even in Hamburg there is relief that Washington has finally offered a plan for negotiating a pause in the arms race.

This is not much, but at least it is agreed here that there is now hope for a new beginning. Before Brezhnev's scheduled arrival late Sunday in West Germany, it bombarded this country with an artillery barrage of propaganda, without the slightest suggestion that there was anything in Reagan's proposals worth considering — all this directed from Moscow at the leaders of the anti-nuclear demonstrators in West Germany.

Moscow's strategy is quite clear.

Just as it rejected the Marshall Plan as a trap, and the Baruch, Acheson, Lilienthal and Eisenhower plans for the control of nuclear weapons as American tricks to dominate Europe and therefore threaten the Soviet Union, so it is now condemning the Reagan proposals as another U.S. imperialistic plot.

By so doing, the Soviets apparently hope to encourage the leaders of the anti-nuclear demonstrations in Europe to raise such a public howl in the streets that Schmidt and the other West European leaders will not be able to agree to the emplacement of any

new U.S. Cruise or Pershing-2 missiles in Europe and thus leave the Soviet Union's SS-20 and SS-4 and SS-5 missiles dominating the European balance of power.

It would probably be a mistake to take all these pronouncements out of Moscow and even out of Washington too seriously for the moment. This is not the end, but only the propaganda beginning of a long negotiating process that will start in Geneva at the end of this month.

Between now and then, it might be helpful to avoid, or at least minimize, charges of bad faith, if both sides want to try to clarify an important preliminary question.

There is a fundamental conflict in the public statements from the U.S. and the Soviet governments about the facts of (1) what the present balance of missile power in Europe is, and (2) what that balance or imbalance would be if the U.S. or the Soviet proposals were accepted.

So far, the propaganda on both sides has concentrated on the intentions or the motives of each other, which is a dangerous guessing game. But the facts can be measured, or at least clarified.

President Reagan has defined the facts of the military imbalance, as he sees them. Brezhnev, or at least Zamayev, his propaganda chief, has rejected Reagan's analysis as nonsense and insisted there is no imbalance except the one Reagan is trying to create with his negotiating proposals.

At best this is a tangle of complicated military and scientific problems, beyond the understanding of most mortals. But it has been thrown into the arena of public opinion, and least Moscow can take Reagan's "facts," one by one, and make them as misleading rubbish, publish their answering "facts" so that there can be a more rational basis for comparison.

Some progress obviously has

been made. President Reagan has finally made an excellent speech, which six months ago might have avoided much trouble with both the allies and the Soviets. He has been responsive to the objections of the Soviets, the NATO governments and the leaders of the anti-nuclear movement that he was avoiding negotiations and had no clear proposals for negotiation.

Now he is entitled to a fair hearing from them all. He is getting it from Schmidt and the other NATO leaders, and also from some anti-nuclear organizations here, who have played a major part in forcing Reagan to consider their concerns.

Yet it is not clear in Hamburg that they will give him as much consideration as he has deserved and reluctantly given theirs. They are not anti-American, they insist, but they are mocking and anti-Reagan and will not be convinced by his speech until it is followed by serious negotiations on both sides at Geneva.

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Reagan's Adversaries Ply in Sundry Places

By George F. Will

WASHINGTON — Well-wrought foreign policy can clarify not only a president's aims but also those of adversaries. President Reagan's "zero option" policy regarding medium-range missiles in Europe will clarify the aims of the Soviet government, Europe's "peace" movement and the U.S. State Department.

Russia has about 270 SS-20s targeted at Europe; it will have at least one re-firing missile for each launcher; each missile has three warheads. So the relevant number regarding this single component of the Russian intermediate-range missile threat is: $270 \times 2 \times 3 = 1,620$. And they are deploying another SS-20 each week. And they have SS-4s and SS-5s deployed.

The relevant number for the United States is 0. It has no intermediate-range missiles in Europe.

NATO has reluctantly resolved to deploy some in response to Soviet deployments. But President Reagan proposes to forgo deployment if Russia will bring about balance by removing its missiles. His proposal will succeed either in making the world safer by reducing force levels, or in making the world safer by demonstrating that Russia is not interested in balance or reductions, anywhere — a fact

made clear in the SALT-1 and SALT-2 negotiations.

If the president's proposal does not modify Europe's "peace" movement, that, too, will be clarified. The "disarmament" movement does not protest ongoing Russian deployments; it protests NATO's proposal for beginning counter-deployments two years (100 more Soviet missiles) from now. The "peace" movement's selective indignation reflects the movement's two driving passions: desire and anti-Americanism.

The forces of an Asiatic despotism have been in central Europe for 36 years, deterred by inferior numbers of conventional U.S. forces backed by superior nuclear forces. Why are there people now in Europe's streets demanding unilateral disarmament? Because the balance of strategic and especially theater nuclear forces has shifted dramatically in Russia's favor, and deterrence seems less stable.

Between 1949 (the formation of NATO) and 1979 (the invasion of Afghanistan) and 1979 (the invasion of Afghanistan), Russia's disdainful indifference regarding President Carter's complaints about "unacceptable" forces in Cuba, there was confidence in the superiority of U.S. strength, and there was no

fear that that strength would be used aggressively. Today Russia has superiority, and there is fear that it may throw its weight around unless appeased.

In 1977, when Brezhnev brusquely rejected Carter's SALT proposal for significant reductions of force levels, Carter's administration became repellant about its "unrealistic" proposal and began negotiating with itself. When Brezhnev sees that Reagan's administration must match Russian deployments before negotiations begin, something the critics are loath to do, or must enter negotiations reconciled to an unequal outcome and content to negotiate only about its degree of inferiority.

The State Department opposed the "zero option" and is not a gracious loser. It is sabotaging the president's policy by leaking criticism and spreading destructive hints that the administration has prepared a fallback position in anticipation of retreat. Actually, there neither is nor will be such a position.

The "zero option" was authorized across the Potomac, in the Pentagon, and there is a certain sniffiness in Foggy Bottom about ideas originated elsewhere. Furthermore, the State Department cannot bear the thought of Soviet intransigence because the diplomatic mentality is more concerned with "movement" than with the direction in which one is moving.

That is why, until now, the dismal pattern has been for the U.S. policy-makers either to "pre-negotiate" the U.S. position, putting forward only proposals they think the Russians might accept, or to prepare and even intimidate in advance a path of retreat to a more "realistic" position. In either case, panic about Russian obduracy has achieved in Washington much of what Russia should have had to seek, and should have failed to achieve, at the negotiating table.

Today the president needs an "almost zero" policy toward the adversaries in the State Department. He should sack nine out of every 10, as a lesson to the rest.

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Vicious Social Cycles in America

By Eric Foner

NEW YORK — During the civil rights revolution that took place throughout the United States during the 1960s, it became commonplace among American historians to say that the country was experiencing its "second reconstruction." In the original Reconstruction, after the Civil War, blacks were accorded political equality, and the government sought to impose interracial democracy upon the South.

Reconstruction was overthrown in the political upheaval known to historians as "redemption," which re-established local self-government — a euphemism for white supremacy. Today the second reconstruction has run its course, and America appears to be entering the second redemption.

Parallels

History never really repeats itself, but the parallels between that time and the present are striking. In the 1870s, large numbers of women demanded constitutional recognition of their rights (the vote), debates raged among economists over the money supply and a return to the gold standard (effected in 1879), and self-appointed guardians of public morality

force laws promoting racial integration were abandoned. The 15th Amendment, guaranteeing blacks' voting rights, was reduced to a mockery by economic and physical intimidation of black voters, and by poll taxes. Black political power was also limited by more subtle means, some of which survive today: the gerrymandering of districts and the use of at-large elections.

In both the 19th and the 20th centuries, a period of turbulent social change was succeeded by a desire for "stability," followed in turn by an open assault on achievements, enshrined in federal law and the Constitution, that had appeared irreversible.

Backward

Joseph H. Rainey, a black congressman from South Carolina, in his farewell speech in 1879, summed up the balance sheet of redemption: "Can the saving of a few thousand or hundreds of thousands of dollars compensate for the loss of the political heritage of American citizens?"

If there is a lesson in all this, it is, as Thomas Wentworth Higginson warned when he commanded a black regiment during the Civil War: "Revolutions may go backward." But when government abandons its social responsibilities, problems of racial and economic injustice do not simply go away. The first redemption is not merely a historical event: America still lives with its consequences in racial attitudes, institutions and social dislocations.

Between the undoing of Reconstruction and the modern civil rights movement, a century elapsed. Today, Americans may not have the luxury of another prolonged failure to come to grips with the legacy of 250 years of slavery and 100 years of segregation.

Eric Foner is professor of history at City College of the City University of New York. He contributed this article to The New York Times.

Letters

Missiles and Backyards

I beg to differ with your description of the essential issue involving the deployment of American missiles in Europe ("Ungarbling the Argument," IHT, Oct. 23). Most will agree that if the Soviet Union invades Western Europe, nuclear weapons are likely to be used against the invading force. This, together with the capability of mutual destruction possessed by both superpowers, has assured a precarious peace in Europe until now, and public opinion has generally accepted this situation.

Now, in response to Soviet SS-20 missiles, which cannot reach the United States, American missiles are to be installed in Western Europe which can reach the Soviet Union. This is to be done at a time when the suspicion is growing that these new missiles are to be installed more to provide the United

States with a stronger clout in its superpower contest with the Soviet Union in other parts of the world than to protect Western Europe against attack — the sole purpose for which NATO was established.

Afghanistan or Pakistan are just as close to the Soviet Union as Cuba or El Salvador to the United States. More people are becoming concerned in Western Europe that they may be atomized one

NORTH AMERICAN REAL ESTATE

A SPECIAL SUPPLEMENT

U.S. Remains Attractive to Foreign Investors

NEW YORK — With its stable and favorable political and economic climate, relatively cheap prices and good returns, the United States remains an attractive real estate market for foreign investors. Where else in the world, asked William S. Bahnenburg Jr., president of Brooks Harvey in New York, can an investor find such a large and diverse market, with 25 urban markets? "Even in relatively bad times some people are doing well."

Europeans can get a much better yield on their investment in the United States than on similar property in Europe — about 4 or 5 percent more, estimated Paul Saylor, who heads Ackerman Advisory Associates in Atlanta.

Worsening economic conditions at home, a strengthened dollar and higher exchange rates in the United States, however, have had their impact on foreign investment.

Edward Lee Cave, president of Sotheby's International Realty Corp., a broker for luxury residential properties around the nation, said the percentage of foreign business had declined in the last five years from 70 to 50 percent. "Because of the change in exchange rates people are buying more as an investment and less as a tax避税.

Romanek Golub & Co., a Chicago-based real estate firm, closed its overseas offices in the last two years because, said the company's vice president of investments, Robert J. Wiesen, "we felt the influx of overseas money had peaked. Although the dollar amount of investment might increase, the number of investors may even decrease."

Reports vary around the country as to whether foreign investment in real estate is increasing or decreasing. In general, according to the latest report of the U.S. Department of Commerce, it has been decreasing — from \$3.3 billion in 1979 to \$2.7 billion last year.

About 28 percent of all foreign investment in the United States is in real estate (only manufacturing, at 34 percent, attracts more), and since this year foreigners, who were previously exempt, must pay a capital gains tax on real estate deals. There are those, such as Mr. Saylor in Atlanta, who believe that, while the dollar amount of foreign investment has not decreased, the percentage of it has gone down due to economic problems in the United States and abroad.

Charles Uristadt, who heads the real estate firm of Pearce, Uristadt, Mayer and Greer in New York, said that, although the rate of growth is slower and the amount of foreign investment has been somewhat overplayed, "the trend has been consistently upward."

While he has noted increasing investment from Europe, the Far East and the Middle East, Mr. Bahnenburg, at Brooks Harvey, said there has been particular interest in land development from the Far East, Hong Kong and Singapore. Others have noticed increasing investment from mainland Chinese sources.

In general, Mr. Bahnenburg noted, "as foreigners are becoming

more sophisticated and familiar with the market, they are becoming willing to take development equity risks to increase their return."

Foreigners, however, many U.S. real estate representatives report, are much more interested in long-term, secure income producing properties and are willing to have less of a yield than U.S. investors. The prime real estate market for foreign investors right now is office buildings, followed by land and shopping centers.

According to Hans Gyr, who established American Farmland Investment last year with a group of Swiss investors, many Europeans feel land is a better buy and has more value, that it is more long-term and secure an investment than commercial property.

Concern to Legislators

Texas real estate people report a bit of an increase in foreign activity over last year, with perhaps a little more Asian investment and a little less European investment. The major recent force in foreign investment, however, has been Canadian. "Half of downtown Houston is being developed with Canadian money," said Henry S. Miller Jr., president of the Dallas-based real estate company that bears his name.

Apparently, the increase of foreign investment in Texas has been of some concern to a few Texas legislators, who view foreign investment as excessive. They have prompted Texas Gov. William P. Clements Jr. to create last month the Task Force on Foreign Investments, which will examine the degree and nature of foreign investments in the state and make recommendations to encourage or limit them.

In South Florida, said Fred Stanton Smith, president of the Keyes Co., "foreign investment is as strong as ever, particularly in the purchase of land and leased buildings."

Michael Cannon, a local real estate analyst, estimated that 40 to 50 percent of all real estate acquisitions over \$300,000 in South Florida are made by foreigners.

In Chicago, which had very little foreign investment before 1976, Mr. Wiesen of Romanek Golub said, foreigners have invested an estimated \$300 million in the last five years, most of it from European pension funds in the last three years, although about \$60 million has been from Canadian sources in the last eight months.

Although in the past investors from abroad have bought property in areas most similar and geographically close to their home country — Asians investing mostly on the West Coast, Europeans on the East Coast, Latin Americans in the South and Southwest and Canadians in the Midwest and Northeast — this has been changing as they become more familiar with the market, real estate agents across the country said.

— LINDA BERNIER

Houston skyline: A piece of land recently brought \$750 per square foot — twice the going rate.

Playing the Game With a New Set of Rules

By Linda Bernier

NEW YORK — Although demand and prices for real estate have generally been increasing and certain markets are still going strong, continuing economic problems, including recessionary spasms, and high interest rates are having their effect on the U.S. real estate market.

Because of this situation, analysts are heralding the impending end of about a five-year boom cycle and the dramatic change in the rules of the game: the end of the long-term, fixed-interest mortgage, the increasing institutionalization of the market, the changing role of developers and the advent of new and more "creative" means of financing.

Real estate is still one of the best hedges against inflation. "In the long term, its value — real and inflationary — will increase. It's a strong and healthy business," said Charles Uristadt, president of the New York-based real estate firm Pearce, Uristadt, Mayer and Greer. "But, after experiencing a boom from 1976-1981, we're up at a peak."

Paul Saylor, president of the Atlanta-based real estate advisory firm, Ackerman Advisory Associates, said, "We're heading toward a downward trend in terms of profitability, basically because we're in a recessionary economy and con-

sequently trying to sell off a lot of real estate to get cash."

"Because of the high interest rates," said William S. Bahnenburg Jr., president of the real estate firm, Brooks Harvey, "we've gone from a seller's market, until about six months ago, to a buyer's market."

Activity Slowed

The residential market has been perhaps the hardest hit, but activity in the commercial and industrial fields has also slowed down.

Shopping centers, for example, one of the most aggressively pursued investments by both domestic and foreign investors in 1979 and 1980, are not being developed as actively as before, said Mr. Bahnenburg. "Saturation markets, declining suburban population growth and uncertain economic conditions are making retail tenants, shopping center developers and investors more cautious."

Office buildings are currently the most sought-after real estate investment because of a lack of office space and development in most major cities. But many analysts say this market is being overbuilt, which could lead to a situation of oversupply in many cities.

According to the fall-winter National Office Market Report by Office Network Inc., a grouping of leading local commercial real estate firms in major markets, 519

buildings containing almost 133 million square feet are currently under construction, a 66-percent increase since the fall of 1980 when 79.8 million square feet were being built.

Houston, New York, Chicago, Dallas and Los Angeles account for about 61 percent of all construction taking place, with Los Angeles leading the way, experiencing a more than 100-percent increase in space under construction since the spring-summer Office Network Report.

But the experts in Houston, Dallas,

Las, Miami, Atlanta and Chicago are expressing concern that if all proposed development proceeds as planned, their office markets may become somewhat soft by 1983 when these buildings come into use.

Soft, however, is relative. Compared to an occupancy rate of almost 100 percent in downtown Houston, for example, a soft market, prompted by the construction of 43 square million feet, 17 million of them downtown, would bring down the occupancy per-

(Continued on Page 10S)

Canada: The Limitations — and Advantages

By George Brett

TORONTO — For investors thinking of putting money into Canadian real estate, the advantages are as real as they appear: With about 3.8 million square miles of land area, Canada is the second-largest country on Earth, blessed with an enormous store of natural resources and a stable democratic system.

Despite its size and population of only 24 million people, Canada is also highly developed technologically, with most of the people living in large, modern cities (greater Montreal has 2.81 million people, Toronto 2.86 million and Van-

couver 1.25 million) within a few hundred miles of the U.S. border.

But the foreign investor should also be aware that economic and political conditions impose some restrictions. These include mortgage rates in the 20-percent range and rent controls in some of the 10 provinces.

In addition, Canada's short-term economic forecast is clouded, in common with that of most of the Western world. The Consumer Price Index is rising at a current 12.5-percent annual rate and the federal government is hampered by a budgetary deficit of about Can.\$12 billion in the fiscal year

ending next March 31. And a forecast by the Investment Dealers' Association of Canada puts real growth of the gross national product at only 2.8 percent this year, 4.2 percent next year and 2.2 percent in 1983.

Nationalism

Finally, a spirit of economic nationalism has developed over the past decade that has resulted in restrictions on foreign investment at both the federal and provincial levels.

None of these drawbacks is serious enough that investors should forego Canada's attractions. But they must be taken into consideration.

Larry Gamble of A.E. LePage Ltd., Canada's largest real estate company, explained the factors that have shaped the current Canadian market. Mr. Gamble, Toronto-based vice president and manager of the investment and mortgage division, said there is a larger-than-usual supply of investment properties on the market at present, including shopping centers, industrial plants, office buildings and condominium buildings.

This supply is partly the result of a building boom in the late 1970s and partly the result of record-high mortgage rates. Where developers often used to continue to own and manage the properties they built, the high interest rates have led more of them to place the properties on the market.

Thus a fully-leased four-building office complex is offered in suburban Toronto "on a cash basis" for Can.\$80 million; a 42,000-square-foot development area in downtown Winnipeg, Manitoba, for Can.\$1,550,000; a recently completed shopping center in northwest Calgary, Alberta, for Can.\$10 million; and a 54-suite apartment building in New Westminster, British Columbia, for Can.\$2,565,000.

Mr. Gamble cautioned that investors should be prepared to stay with an investment for at least five years before starting to receive cash flow. The current low (or no) yields on real estate investments result from the high interest rates in combination with rent controls on residential units in some provinces.

Rent Control

Ontario's rent control situation is typical. Most multi-unit buildings constructed since Jan. 1, 1976, are subject to a 6-percent annual ceiling on rent increases except for higher increases approved by a review board. That is why, Mr. Gamble said, "the rents generated from the marketplace are generally not sufficient to cover operating costs when the property is mortgaged at current interest rates."

But rent controls, high construction costs and soaring interest rates have also meant that rents for residential units have declined, with the result that there is a very low vacancy rate — about 1 percent in Ontario — and "a strong pent-up demand" that must be met at some time in the future, Mr. Gamble said. "There are opportunities for those who'd forego immediate cash return."

As for commercial properties, he said there are particular opportunities in Toronto's suburbs, where "downtown" have developed apart from those in the city core but where the rents are more affordable.

Outside Toronto, a growing factor for foreign investors in the future could be the depressed state of farmland in Ontario. Land prices have dropped by as much as Can.\$300 an acre to the Can.\$1,400 range in some areas. Many farmers have been forced to



The observation floor of the World Trade Center: New York office-space demand is in strong shape.

New York: Projects Clearing Final Hurdles

By Carter B. Horsley

NEW YORK — New York City's office market is beginning the 1980s poised for historic change as many mammoth development projects appear to have cleared most of their final hurdles in the path toward construction.

Most of these projects, such as Battery Park City, Westway and the South Street Seaport, as well as West 42d Street, were born of an older, rather garrulous planning philosophy as opposed to the much more modest approach embraced in the city's new revision of midtown zoning that is expected to be adopted in the early spring.

Because they have been such long-standing proposals, their potential impact has been somewhat discounted, especially as the pace of construction of much smaller, individual office buildings has quickened to the point of frenzy in the last year, in part because of the expectation that the new zoning will lower the potential size of new projects in the prime east midtown office core.

Demand Continues

Nevertheless, their sheer magnitude — Battery Park City and West 42d Street, for example, each contain about 6 million square feet of office space — is likely to overcome their design and planning history and create important and dramatic new centers.

Despite the uncertainties of the national economy and the impressive amount of new construction apart from the large projects, most real estate experts agree that the city's midtown and downtown office markets are in

very strong shape. Demand continues and much of the space now in construction is already committed and leased.

Rent levels have slowed their meteoric rise in which they almost trebled in the last three or four years, but most specialists view this as a plateau rather than a peak. While some brokers are a little cautious about the pace of absorption for some of the newer projects, there appears to be no fear of an overall market collapse similar to what occurred a decade ago.

At that time, the World Trade Center, with about 10 million square feet, came on top of a speculative building boom that left the city with more than 30 million vacant square feet and a vacancy rate of perhaps 13 or 14 percent, as compared to about 3 percent now of much larger inventory.

Distinctive new office precincts are emerging in both the midtown and downtown markets.

In midtown, the newly forged canyon of office towers in the 50s along Madison Avenue is transforming the narrow boulevard into a tall, dense urban forest while a new generation of office buildings on Third Avenue are clearing away the few remaining ramshackle railroad flats in midtown that dated to the days of the Elevated.

The projects on both Madison and Third avenues are "infill" developments that are rising up most of the developable sites, whereas the new office districts in Lower Manhattan, clustered about the South Street Seaport on the East River and Battery Park City on the Hudson River, are brand new areas.

Almost all the new projects are markedly

different from the typical office building of a straight tower set in a plaza developed under the city's zoning that was last substantially revised 20 years ago. This is the stereotype on which much of the current controversy over the need to revise midtown's zoning is based.

The new buildings, most of which were designed to meet existing regulations, emphasize individuality with setbacks, cantilevers, unusual motifs, and interesting public interior spaces.

The new American Telephone & Telegraph Co. headquarters building on Madison Avenue at 56th Street designed by Philip Johnson and John Burgee, for example, will not only have a pink granite facade and broken-pediment roof but a 70-foot-high open lobby that will be one of the most dramatic entrances in the city.

And one block north, the International Business Machines Corp.'s new green granite tower designed by Edward Larrabee Barnes has a soaring wedge shape that is cantilevered over its corner entrance. A block south of AT&T, Mr. Barnes varied the cantilever approach for George Klein for a smaller tower with a satin silver finish that competes with Tishman Speyer Properties' slanted-base red granite tower designed by Swaine Hayden Connell across the street at 54th Street.

Less Monolithic

The Third Avenue projects are less monolithic than their Madison Avenue counterparts, but no less controversial. The Cohen Brothers Realty & Construction Co., for example, is involved in two sleek skyscrapers. One is the rounded-corner, reflective glass

(Continued on Page 13S)

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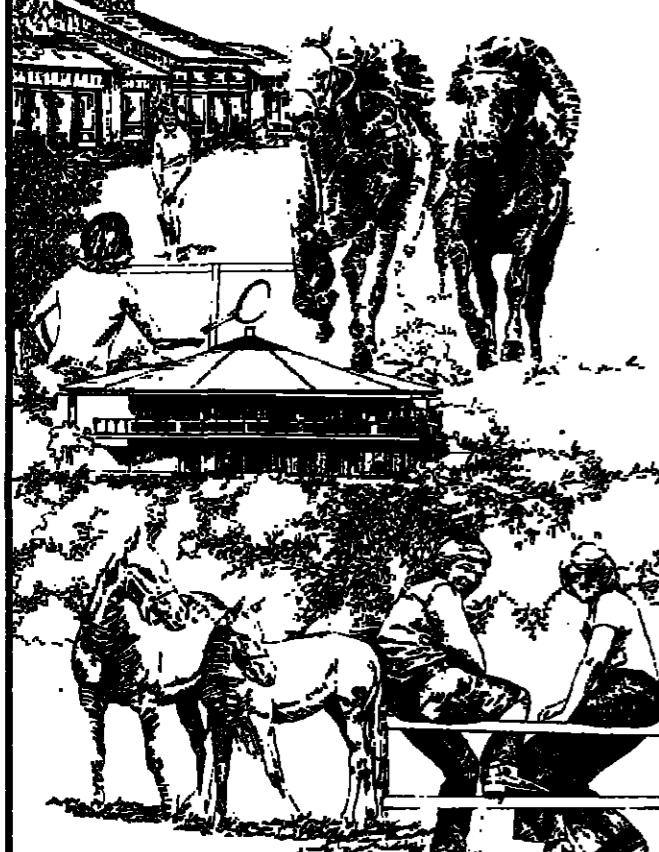
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Oklahoma The Profitable Place To Be

Sifting the Pitches for a Piece of Paradise

By Joel Stratte-McClure

HONOLULU — A visitor strolling down Kalakaua Avenue in Waikiki is abruptly handed an invitation to a free champagne breakfast "in the cool shade of a beautiful banyan tree surrounded by the lush beauty of tropical gardens."

Following a morning meal which includes honey pork and pineapple, the visitor is led to a corner of the garden and, as the invitation promised, "talks to our gracious hostess about the grand opening of the Imperial Hawaii Resort just a few steps away from the warm blue waters of Waikiki Beach." There is, of course, no such thing as a free breakfast and before leaving the visitor is seductively requested to purchase "a piece of paradise."

The hostess makes a time-sharing investment in a Hawaiian condominium project sound like the bargain of a lifetime. A buyer spends about \$16,000 to own a suite, a view, a Jacuzzi and other amenities for two weeks a year. The hostess does not mention potential problems with resale nor deal with the basic disadvantages of an inflexible holiday. She does not readily acknowledge that her company will obtain a higher price per unit by selling to a larger number of buyers.

Time-sharing sales of condominiums is the most visible real estate offering in Hawaii today and the Aloha state represents an important percentage of the \$1.5-billion time-sharing market in the United States. No one visiting Hawaii can escape the allure of a free breakfast or lunch because there are no local laws to restrict the sales pitches on Kalakaua Avenue.

"Time-sharing is giving Hawaii real estate a bad reputation," says a broker with Century 21 after showing a foreign visitor some oceanfront homes in the \$3-million range. "It is shady dealing and may discourage people, especially foreigners who pay cash, from buying land in Hawaii."

Bomb Shelter

The agent, who is offering one home for sale with a Rolls Royce as part of the deal and another advertising an equipped bomb shelter, does not think gimmicks are necessary.

Like most U.S. markets, the Hawaiian real estate environment is suffering from an uncertain economic situation exacerbated by tight money. Time-sharing and houses featuring bomb shelters are the more blatant attempts to increase business in Hawaiian real estate, which declined by 35 percent in 1980. Construction is down 6 percent in 1981 and a decline in tourism has contributed to the bleak outlook.

Still, brokers and bankers in this fun-in-the-sun archipelago are 2,500 miles off the California coast are

confident that both the tourist and real estate slump are temporary.

"Hawaii is still a very favorable investment area for substantial price appreciation due to the limited land supply and desirable climate," says Vi Dolman, president of the Dolman Associates real estate company. Adds Bruce Stark, president of Stark Ventures, a developer of resorts, condominiums and commercial property. "Despite the current downswing in activity, foreign and domestic investment will continue to be attractive in Hawaii as prime properties in the more popular investment areas become increasingly rare."

Hawaiians are making the sensible gamble that the state's geographical position, cross-section of races and cultures, idyllic climate and economic stability will continue to attract investors from the U.S. mainland and foreign markets. They readily point out that Hawaiian land values are still bargains compared to Japan and Hong Kong while Hawaii is increasingly becoming an important American gateway to Asia.

Japanese Investors

These arguments have convinced investors from 13 countries to invest in Hawaiian hotels, commercial buildings, agricultural land, industrial sites and condominiums. Real estate assets account for approximately 70 percent of the total \$3-billion foreign investment in Hawaii. About 80 percent of foreign-owned land is on the island of Oahu, location of the capital city, Honolulu, and the state's third-largest and most populous island.

Hotels account for about 40 percent of foreign real estate holdings, 15 percent condominiums, 15 percent and resorts and agricultural land, 30 percent. The Japanese are the leading foreign investors, owning about 75 percent of the foreign real estate holdings, followed by Canadians with 11.4 percent, Australians with 7.8 percent, and investors from Hong Kong, Taiwan and Singapore. Although there is some publicized Dutch investment, European and Middle East interests have little noticeable presence in Hawaii.

Foreign capital has been moving into Hawaii since 1963 when Japanese businessman Kenji Osano began purchasing a string of hotels in Waikiki. Japanese, Canadian and Australian investors made a flurry of purchases in 1972-74 and — after a slowdown caused by the global recession and capital export controls in Australia and Japan — during 1977-78.

Japanese own about 20 percent of all hotels in Hawaii and are the leading foreign purchasers of resort areas on the islands of Maui, Kauai and Hawaii. Japanese participants include the Mitsui group, Mitsubishi, Fuji Iron & Steel,

Seibu and the Tokyo Industrial group, to name a few. "The Japanese feel culturally close to Hawaii and the state's proximity to Japan makes it the easiest U.S. investment for them," says Thomas Hitch, senior vice president at First Hawaiian Bank, who notes that foreign investment is usually made without local financing. "Japanese are also an important segment of the tourist market and travel in groups which prefer to stay at Japanese hotels, shop at Japanese-owned department stores and eat in Japanese-run restaurants."

Hotel Investment

Since 1976 most foreign hotel investment has come from airlines, including All Nippon Airways, China Airlines and Korean Airlines. But during the past two years, only two of nine hotels built were owned by foreigners. Although Japanese firms are constructing numerous resort areas, the inflation with hotels may have reached its peak.

"Nobody, foreign or local, is currently making grandiose plans for large resort or hotel complexes because of the decline in tourism," says Clement Judd, executive director of the Hawaii Hotel Association. Adds Bruce Stark, "I wouldn't put anything into a new resort area at this moment, though it might be the right time to purchase existing facilities."

Mr. Stark and other realtors believe the future of Hawaii's real estate market is in condominium and commercial developments. There is an ongoing renovation of the Honolulu business area. New projects have created an additional 585,000 square feet of office space since 1978. Theo H. Davies, owned by Hong Kong Land Corp., a subsidiary of Jardine Matheson Co., and the Canadian-based Grosvenor International represent 90 percent of foreign-owned commercial and industrial developments.

The market in Hong Kong is extremely variable," says one Hong Kong investor, "and Hawaii represents stability at low prices."

Department Stores

Residential development and increased tourism throughout Hawaii have also led to foreign participation in the retail sector. The major retail investment by foreigners is a high rise in Waikiki owned by Sanyo Land Industrial of Japan. The Mitsukoshi department store has leased five floors. This year the Tokyo group opened the Shirokiya department store and Daiso Inc., Japan's largest store chain, has a number of outlets.

"Suburban shopping malls," says Mr. Stark, "present an attractive investment opportunity."

Canadian investors hold 90 percent of foreign-owned condominiums in Hawaii, about 6 percent of the total condominium market in the state. Foreign interest in condominiums is increasing at such a rate that the Hawaiian International Services Agency believes that 25 percent of all condominiums in Hawaii could be foreign-owned by 1983.

The focal point of Canadian ownership is in the Lahaina and Kihei areas on the island of Maui, while Japan's largest condominium contractor, Hasegawa Komatsu, has an interest in projects on the islands of Hawaii and Kauai. Land availability and development restrictions will spur the condominium market to quick growth in the next five years, according to observers.

"There is a lot of disposable income in western Canada and a large chunk of it is coming to the condominium market here," says Mr. Hitch. "Condominiums are the mini-resorts of the future."

Agricultural land in Hawaii is still largely controlled by the state and large estates. The return on investment is comparatively low and the future of investment is thus sec-

ondary to the state's plans to convert some of the land for commercial or industrial purposes. Although there have been some foreign purchases of expensive residences, the foreign impact has not disrupted the housing price structure except at the upper level of the market. One study indicates that foreigners own less than 1 percent of the homes in Hawaii.

The future of foreign investment in Hawaiian real estate will largely depend on the state's attitude towards growth. And although Hawaii has embarked on what Gov. George Ariyoshi calls "a preferred future with the emphasis on slow growth," there are no restrictions planned regarding foreign investments.

"It's not who owns the land but what they do with it that's important," says the governor.

However, some local developers feel Hawaii is not doing enough to attract foreign investment.

Herbert Cornuelle, president of Dillingham Corp., a large construction company, believes Hawaii "is almost universally

NORTH AMERICAN REAL ESTATE

perceived as an anti-growth state, hostile to business, with no financial incentives for companies to locate here."

Environmental groups and building regulations have restricted some development and there will definitely not be a repeat of the rapid construction growth seen here during the 1960s and 1970s. The theme will be a more sensible development.

"There's no reason that we can't have a development future which will still be attractive to outside investors," says Stanley Hong, vice president of the Theo H. Davies Co. Ltd. "We believe we can gradually convert some of our agricultural land into ranches, for example."

In the long term, Hawaiian officials believe they will continue to

attract foreign capital. A government report predicts there will be fewer large land purchases but projects that condominium developments will continue on the islands other than Oahu and that "an increasing number will be sold to foreigners as vacation hideaways or for investment purposes." The report contends that Japanese, Canadian and Australian investors "will continue to be active but will be increasingly joined by other foreign investors looking for secure investments with a high potential for appreciation."

"The present real estate market is reflecting economic trends in the mainland and there is a wait-and-see attitude," says Mr. Hitch. "But Hawaii remains a solid investment and it's really not necessary to give away free incentives to attract investors."

Among the luxury properties handled by Sotheby Parke-Bernet International is the Akaua Estate in Delaware County, New York. The horse and game farm has nine bedrooms and seven staff houses, and includes 1,800 acres.

Dropping Names and Big Sums of Money

NEW YORK — The Knoll-Dino de Laurentiis' 10-acre estate in Beverly Hills was recently sold to country folk singer Kenny Rogers for \$14.5 million. The agent was Sotheby Parke-Bernet International Realty Corporation.

To drop a few more names, Sotheby's has also acted as agent — in six years of real estate operations — for Liza Minnelli, the Bee Gees, Laurence Rockefeller, Billy Joel and others. Most of the properties in question approach or go over the \$1 million mark — somewhat upmarket. Sotheby's uses its impeccable reputation as an auctioneer along with useful contacts and has been quite successful since embarking in the real estate field in the next five years, according to observers.

Clark Holstead, senior vice president of the company, explained in New York last week how, for obvious reasons, Sotheby's had managed to keep in touch with the wealthiest people around the globe. "If someone buys a \$5,000 painting, they might as well have a \$1 million wall to hang it on," he said.

According to Mr. Holstead, properties to the ultra rich all over the United States, from a cedar-shingled retreat perched on a granite ledge, on a lonely island in Maine to huge farms in Tennessee, and, of course, immense estates in California. It is also active in Manhattan and has on its lists the most expensive apartment in the city: a 35-room duplex on Park Avenue, where the monthly maintenance is \$10,000.

A recent addition to the lists is a solar-condominium in Lake Tahoe called Third Creek, offering 2-, 3- and 4-bedroom "mountain village homes."

But on the whole, Mr. Holstead thinks that Europeans

prefer buying property on the East Coast because it's geographically reminiscent of wherever they come from. "They wouldn't feel at home with cacti all over the place," he said.

Many foreign buyers prefer to purchase condominiums in corporate names rather than cooperatives, as they can avoid having to submit to probing references, which some clients find offensive and which others would not be able to supply.

— MAUREEN SHERWOOD

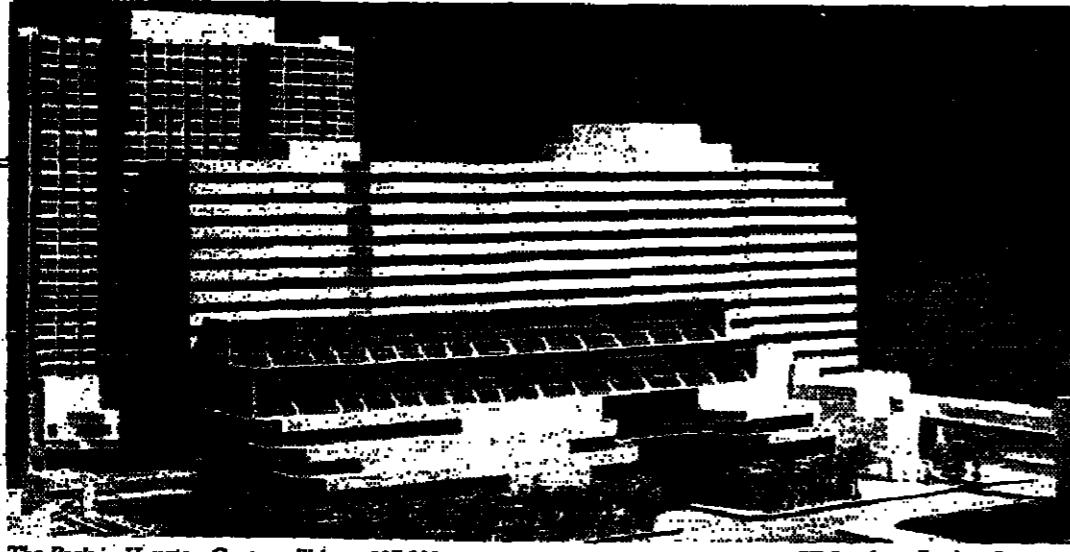
Fabulous Properties

Several foreign clients come from generations of land-based fortunes, said Mr. Holstead, some tracing their ancestry to William the Conqueror. "The importance to them is the permanence of the property as distinct from an investment on improvement."

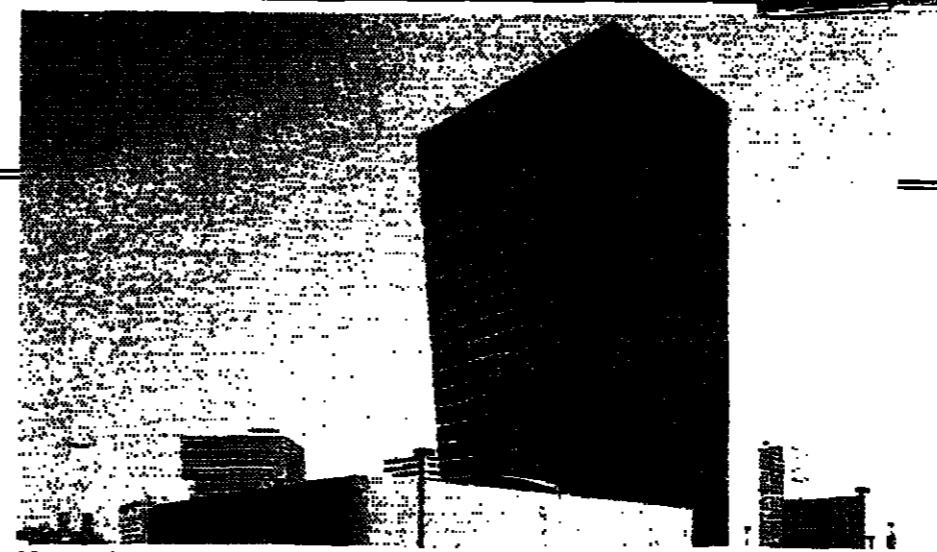
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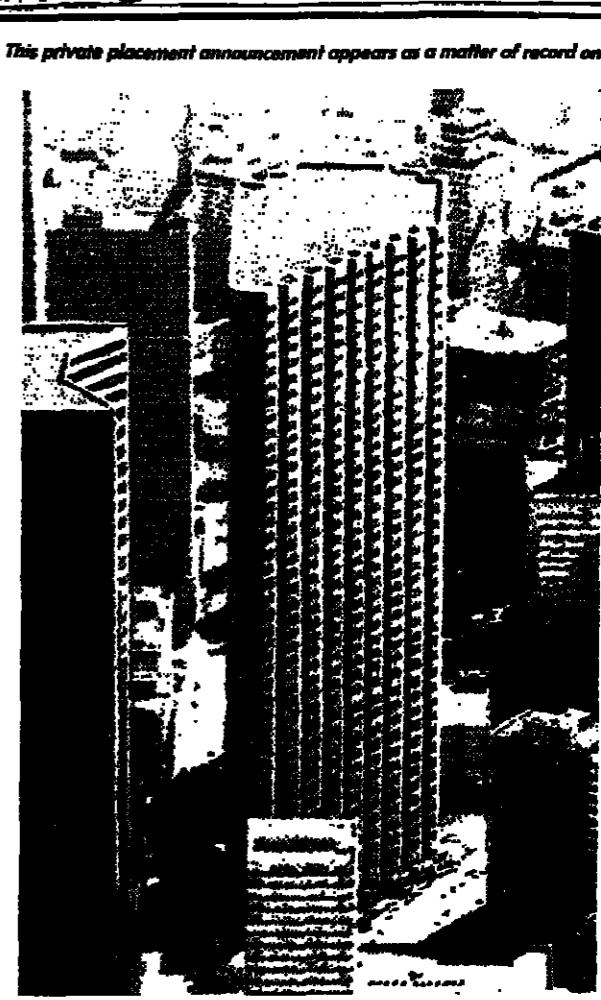
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Sun Belt Cities Continue to Shine Among Major Growth Areas of U.S.

By Linda Bernier

NEW YORK — The major growth cities in the United States, according to real estate experts, continue to be cities such as New York, Chicago, Washington, D.C., Dallas, Houston, Los Angeles, San Francisco, Denver, Phoenix, Santa Fe, Miami and Atlanta.

Some are attractive because they are major centers of business and industry, others because they are regional centers and others because they are Sun Belt growth cities.

The following is a brief description of how a few Sun Belt cities have been doing and what their outlook might be:

• HOUSTON-DALLAS:

Many envious out-of-town real estate firms expected these boom towns eventually to slow their pace of expansion or go bust with speculative overbuilding, but so far they have continued to grow and absorb all the new space constructed.

There is virtually no office space available for rental in downtown Houston or Dallas. Some real estate people, however, are concerned that with the tremendous

amount of construction under way — 43 million square feet in Houston, about 17 million square feet downtown, and 20 million square feet in Dallas, about 10 million square feet downtown — the office market may become a bit soft by 1983.

The retail and industrial markets are already somewhat soft. Real estate agents at the Henry S. Miller Co., a Dallas-based firm, report that there is a healthy inventory of several million square feet of industrial space in Houston and in some areas of Dallas, a two-year supply of such space because of overbuilding. The retail market, said Wes Kirkham, a vice-president at the Hank狄kson Co. in Houston, is somewhat slow because of high interest rates.

Business Climate

But, in general, the economy and real estate market in Houston and Dallas are thriving. "We've got a recession-proof economy," said Edward Cappel, the sales manager at Coldwell Banker's Houston office.

Houston, with no personal income, state or local corporate taxes nor zoning regulations, offers the most attractive business climate in the country. Texas, as a whole, has attracted business be-

cause of its weak labor unions, abundant energy supplies, climate, low-interest local industrial development bonds and spacious room for expansion.

Houston is known as an energy center, with over half of its business in that field or related fields. Dallas, a better-planned city because of some development restrictions, is known as a major regional distribution and transportation center as well as a center for financial institutions and electronics firms.

In Houston, the major areas of growth, besides the booming downtown and Galleria-Greenway areas, are the West-Westchase and North Houston airport areas.

Building cranes are in motion everywhere as the Century Development Corp. puts up its spectacular Allied Bank Building and the 50-story Four Allen Center. Gerald Hines puts up his magnificent Republic National Bank Building and Cadillac Fairview continues to build the Houston Center. In Dallas, the cranes are particularly active in the downtown and suburban areas.

• MIAMI: This city and its surrounding area, which began to change in the late 1960s from a retirement haven to a center of international trade and business as well

Attractions

Real estate people are confident that while the market might be a little flat right now, it will pick up with the economy. The fact that land prices remain strong, said real

estate analyst Lewis Goodkin, is a good indication of continuing confidence in Miami's future.

In addition to general price increases of about 20 percent over last year, primarily because of increasing production costs, land prices and government regulations, residential sales have gone down by about 30 percent with a 60-percent decrease in residential starts, because of the high cost of money, said Fred Stanton Smith, president of a large Florida real estate firm, the Keyes Co.

The market for some commercial and industrial property is also slow, he said, adding that with 2.5 million square feet of office space under construction and millions more planned, the Miami office market could very well be overbuilt by 1982.

Projects such as the Miami Center, Interlachen and the World Trade Center are being built. In addition, hotels are being planned or constructed in downtown Miami by Hyatt, Holiday Inn, Marriott and the Rama Inn.

• ATLANTA: "Atlanta's real estate activity," said Herbert Lembecke, who is in charge of development at John Portman Properties, an Atlanta-based international development company, "is slower than that of San Francisco, Phoenix, Houston and Dallas, but better than Detroit's and as good as Chicago's. We're not a top Sun

Belt city, but we have a solid and steady growth rate."

Racial and crime problems have restricted development possibilities to a certain extent, but activity is going ahead, particularly in the downtown area, around the airport and in the northern part of the city, observers said.

The residential market is in the doldrums because of high interest rates. But, according to Paul Saylor, president of Ackerman Advisory Associates in Atlanta, the industrial and commercial markets are stronger, with the possibility of office overbuilding in the downtown and some suburban areas.

Three major office buildings are going up downtown, including one for Georgia Pacific, which is relocating to Atlanta. John Portman is doing a major hotel for Marriott.

Atlanta is a major regional headquarters city. With a good transportation system, climate and location, most major companies have offices there as well as service and distribution centers.

Robert Cousins of Cousins Properties Inc., said: "Atlanta is not the golden boom town it once was because of the high cost of money and a very slow market right now. But, in the long term, all the reasons are still here for continued growth and expansion."

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Canada: A Look at the Limitations — and Advantages

(Continued from Page 75)

that amounts to no more than 10 percent. But this number could be higher in Western Canada, where a surge of investment money from Europe, Asia and Africa — seeking a haven from the triple threat of political, economic and military instability — has been buying up real estate.

He said that last year LePage and a major developer raised Can.\$145 million in units of Can.\$50,000 each to pay for three Alberta shopping centers, and that "40 to 50 percent of it came from Hong Kong."

The heaviest foreign investment has been from West Germany, the Netherlands and Hong Kong. Mr. Gamble said, "with a trickle from Venezuela and other parts of South America."

To tap this investment potential and to get some of the Canadian business looking abroad, LePage recently set up an international division. Its president, David Reeves, said he is busy establishing a London office — there are already two branches in the United States — and plans a Saudi Arabian office. (Saudi interests were dithering this summer to buy Toronto's Harbour Castle Hilton Hotel but it ended up — at a rumored Can.\$85 million to Can.\$90 million — in the hands of a Hong Kong resident.)

Often he and a handful of other Toronto-based entrepreneurs with Hong Kong connections put together syndicates for investors who do not have enough money to buy some of the larger blocks of property for sale.

Although mortgages are often more than 20 percent and hard to get except in the shortest terms, Mr. Wong said the Chinese he represents "don't live beyond their means" — usually buying in cash. Not infrequently, they will sell their properties at a profit but invariably will reinvest the proceeds in Canadian real estate, he said.

Though it is difficult to quantify the flow of Chinese investment into Canadian real estate — neither Statistics Canada nor the Canadian Real Estate Association could help — one estimate puts the flow into Toronto alone at at least \$100 million a year.

Lehndorff's Dr. Abromait was out of the country and unavailable for this interview, but William Steele, the director of finance for the companies in the Lehndorff Management Group, said Dr. Abromait and executive vice president John von Haefen started business in Canada in 1966 with the organization of a West German limited partnership established to invest European funds in Canadian real estate. Six more West German limited partnerships and two Canadian limited partnerships have been added since.

A recent prospectus for the issue of limited partnership units on the Toronto Stock Exchange lists Lehndorff as having interest in 13 income-producing properties in Alberta and Ontario, and as managing Canadian assets with a book value of more than Can.\$700 million and U.S. assets worth more than Can.\$300 million.

Mr. Steele said Canadian management proposes investments that are then reviewed by an investment advisory board in Hamburg.

The West German investment in Canada is easier to get a handle on than the Chinese investment. Roland Steinbrink, manager of the Toronto office of the Canadian German Chamber of Industry and Commerce, quoted figures showing that, as of the end of 1980, West German investments in Canada totaled Can.\$2.5 billion, of which Can.\$490 million was in real estate and construction.

Mr. Wong said Hong Kong investment in Canada is "peculiar" compared with that from West Germany, but Toronto real estate development consultant Barry Lyon disagreed. "The biggest foreign influence in Canadian real estate is now Hong Kong," he said.

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Existing Properties

Mr. Lyon said foreign investors are interested primarily in existing income properties ("because development means headaches"), especially office buildings. Because of rent controls, residential properties are the least attractive.

He said, "There is no substitute for local market knowledge," and

heuristics for real estate field, which LePage's Mr. Reeves described as "an obstacle" that can slow the process by two to three months" as well as add legal fees for a presentation to FIRA.

According to a FIRA spokesman, a real estate transaction by a passive foreign investor is not reviewable (that is, does not require FIRA to vet it) below a Can.\$10-million threshold, or an aggregate Can.\$10 million for a number of smaller transactions.

The purchase of raw land is not reviewable unless done on a regular basis, he said.

Guidelines on real estate transactions by foreigners, or a broader information kit on foreign ventures generally, can be obtained by writing to: Foreign Investment Review Agency, P.O. Box 2800, Post Station "D", Ottawa, Ontario K1P 6A5, Canada.

Legislation

Most provinces also have legislation affecting foreign investment in real estate, often special taxes on the acquisition of recreational or agricultural land. Alberta and Manitoba, for instance, have legislation against the acquisition by foreigners, subject to certain exceptions, of more than 20 acres of recreational or agricultural land.

Ontario applies a 20-percent land transfer tax on the transfer of agricultural or recreational land to non-residents.

Quebec has legislation making it difficult for a non-resident to acquire any of its farmland. The province also has a 33-percent land transfer tax that may be applied on the speculative purchase of land by a non-resident. Saskatchewan limits ownership of farmland by non-residents as well.

A Toronto-based accounting firm recently published a booklet entitled "Canada: A Guide for Businessmen and Investors." A free copy can be obtained by writing to: Coopers & Lybrand, 2 Steeple Ave. East, Willowdale, Ontario M2N 5Y7, Canada.

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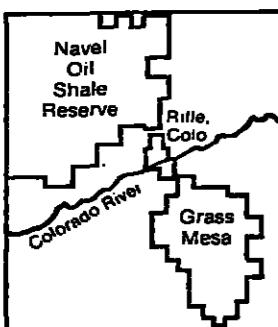
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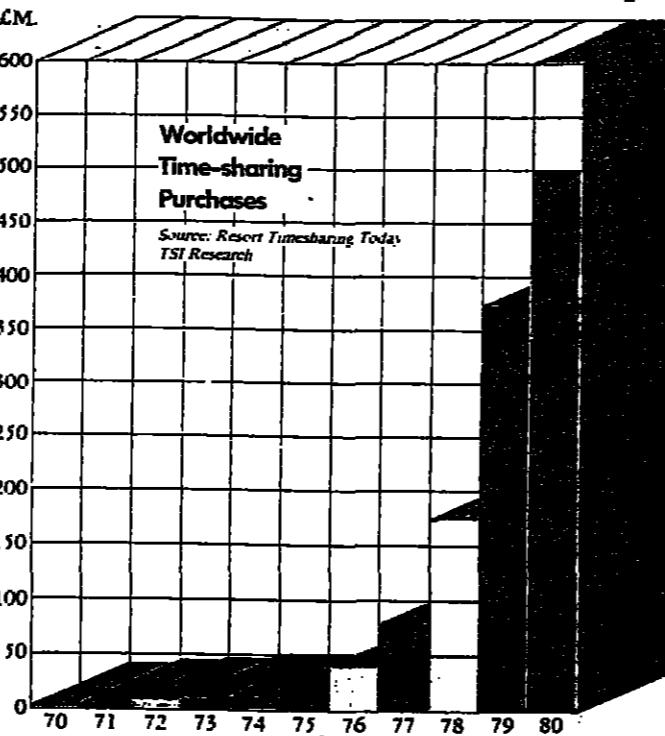
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The idea is to buy whichever is your choice for a specified period of each year of the property's estimated life and behold, you have become a time-sharer. A Swiss developer first thought of the system for vacation homes about 15 years ago. He figured that people might prefer to buy ski apartments by the week or two for a fraction of the price of the whole apartment. They did. Within weeks, every winter week had been purchased. The enterprising Swiss then did the same with the apartments in the summer; results were equally good, and rapid.

Since then, an estimated total of 800,000 people have bought time-shares worldwide, with about 450 developments in the United States alone, where the time-sharing trend has caught on in a big way. U.S. sales of time-shared properties in 1980 totaled more than \$1 billion.



There are two basic types of purchases possible: the so-called *fee simple* transaction, where purchasers get title to a fraction of their unit, and the *right-to-use* arrangement, where they just get a week or more, usually for 25 to 40 years.

Time-share owners in the United States now number 270,000. About 270 companies sell bits of 450 resorts. The price range is from \$1,700 a week to about \$26,000 depending on the time of year bought in seasonal locations.

The attraction to the buyer is evident: With soaring interest rates, buying a second or vacation home has become a luxury beyond the reach of most of the middle class. With both types of time-sharing units can theoretically be ex-

changed at nominal costs with owners of one-week units on four continents.

For the real estate broker, or resort developer, the whole vision of chopping up prime property into slices of time is dream-like. He might be able to sell a condominium in pieces for three times the amount he would sell it whole. He might encounter higher marketing costs but the net profits of time-share sales can be stupendous.

So what is the catch? Unfortunately, the potential dangers — mainly to the buyer — are manifold. The industry has grown so fast that overexpansion symptoms are showing already. Among the danger signals:

• Because time-sharing is such an easy business to get into, given

the promises of large amounts of cash and the number of convertible developments, it can attract inexperienced operators lacking capital and sometimes scruples.

• Because time-share units are being used almost all the time, wear-and-tear costs are high to the owner, and this may not be reflected in the maintenance fees.

• Many time-shares buy with the idea of exchanging their properties with others around the world, sometimes in more desirable locations than their own. This is a risky procedure and hardly tried so far.

• Particularly in right-to-use arrangements, the owner is wholly dependent upon the management and whether the resort is likely to be around in 25 years' time.

There are not many regulations governing sales of time-share units to control all these dangers, although legislation for controlling abuses had been passed by 11 states in which about 85 percent of U.S. time-share resorts are located. "All the abuses that used to take

**NORTH AMERICAN
REAL ESTATE**

acy and mail fraud charges. This was in connection with the sale of time-shares for a resort in Myrtle Beach, S.C., that was never built.

Carl Burlingame, an analyst who lives in Los Altos, Cal., publishes a guide to time-share resorts. He affirmed that time-sharing in general continues to grow rapidly. Of the cautions for potential buyers, the important one, he said, was to select the right property for themselves, not to view it as possible exchange.

"Many people make that mistake," he said. "The main standpoint should be: Is this the place we want to go to?" He added that buyers should check out the management and business side and look carefully at the maintenance fees. "I'd be more concerned about low maintenance fees than high ones," he said.

Magnificent Methods of Marketing

By James Lawther

THE FISHERMAN'S Village Resort Club in Punta Gorda, Florida, is one example of how the vacation time share industry (if not the whole real estate sector) can benefit from successful marketing methods.

In this instance, a thriving resort center consisting of a 98-slip yacht basin, 47 time-share vacation apartments and a specialty shopping mall has been created through efficient marketing practices from conditions that in the mildest terms could only be described as unfavorable.

Sandwiched between the Sarasota and Fort Myers island resort destinations and without the usual attractions of either a golf course or beach, Punta Gorda seemed destined to remain a quiet backwater.

However, following the results of a survey which gave popular support to the idea of turning the former city fuel and fish docks into some form of resort, developer F.M. Don Donelson decided

to back the report and create a competitive resort package.

Following the initial research stage the "product" was carefully designed to create a certain image and provide maximum interest and impact. Three distinct facilities were combined, each enhancing the value of the other.

Leaving nothing to chance, the project was then given maximum promotional support. The Resort Club, yacht basin and shopping mall were opened simultaneously in February, 1981, in the height of the winter season. An area-wide advertising program was initiated and telephone room prospecting in Fort Myers and Sarasota activated.

Based on these sound marketing practices, The Fisherman's Village became a manufactured success proving that adverse conditions can be overcome by careful planning. Already the Resort Club has passed the \$6 million sales mark and forecasts indicate that there will be a 95-percent sellout by May, 1982.

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The New York Land Company

Foreign Interests Thrive in Los Angeles' Property Mart

By Maureen Sherwood

LOS ANGELES — "The most exciting major city center in the United States." Thus Los Angeles was described by John Cushman Jr., president of the Cushman Realty Corporation, at a recent two-day conference organized by the Society of Industrial Realtors, Southern California chapter. He added that foreign interests dominated buyers of income-producing properties and vacant parcels of land in the area. "While the Canadians have been the most aggressive group, we're witnessing a dramatic change to the Pacific rim," he said.

On the industrial and commercial side of real estate in California, things are very different and more optimistic than the slumping housing situation.

Richard King, principal of Richard King International was at the conference. "The biggest or newest wave is the rapid expansion of foreign companies in this country in real estate investment and facilities," he said. He estimated an increase in foreign direct investment in the United States from \$20 billion in 1965 to over \$65 billion by the end of 1985. He predicted that foreign investment in U.S. real estate would expand at the rate of \$10 billion a year, between now and 1983.

Europeans dominated foreign investment in the United States with about 60-percent of the total, according to Mr. King. Britain

came first, then the Netherlands, Canada, West Germany and Japan. He described Japanese investment in California as "so rapid, it staggers the imagination." He believed the figure to be about \$2 billion in California.

Harold Ellis Jr., chairman of Grubb & Ellis, notes that the briskness of the commercial real estate situation had touched off a surge of funds from foreign and domestic institutions with millions to invest. "The entire real estate industry is trying to adapt to the needs and demands of this new money," he recently told a meeting of the National Association of Business Economists.

Foreign investments

About 65-percent of downtown Los Angeles, with its mass of high-rise buildings piercing through the palms, is foreign-owned. Geoffrey Ingalls, a specialist at the Office of International Trade for the State of California, describes Los Angeles as "a bit like London sprinkled along the Côte d'Azur." He explained how it was sometimes difficult to tell exactly whose money was buying what. He pointed at the exotic, mosque-like structure of the old public library, sitting conspicuously among the high-rises, and described the enthusiasm of the developers to pull it down, murals and all. ("Do you realize what is worth?" he asked.

The Canadians have devised and are developing a huge California center in Los Angeles which Harold Sadowsky, vice-president of

Julien J. Studley Realtors, says is a \$400-million to \$500-million venture. It will include offices, shopping malls and theaters. Mr. Sadowsky explained that Canadian dominance of real estate in Los Angeles was mainly due to their ability to "move fast." A point made by Chris Gatsby, of the Toronto Dominion Bank in L.A., was that there was little or no control over investment in the United States. "There's less red tape here and more growth," he said.

Other major foreign purchases in the area include the Crocker Bank headquarters sold to Mitsui Bank for \$70 million (reported in cash), 800 Wilshire and Security Pacific Place building bought by the British.

Asked if he thought this massive

boom in office building might lead to over-supply, Mr. Sadowsky said that as developments could take up to a decade to complete, he felt that this would not be a problem.

Also, leases always had a clause protecting against inflation.

And what of the Los Angeles area? Century City, the "city within a city," which Time Magazine described as a "cement wonderland for over-achievers," half an hour out of L.A. on the Santa Monica freeway, is experiencing a slowdown. But real estate around the airport is still active largely because of its connection with the aerospace industry, which is thriving.

The 37 million square feet of non-government-owned office space in San Francisco makes the city the largest single office space

concentration on the West Coast. An explosion of office space in the peninsula is expected over the next six years, including San Francisco Executive Park, the gateway — over 2 million square feet — being developed by a subsidiary of Sears; the waters in San Mateo town center in Foster City: over 800,000 square feet. Rents currently average \$24 to \$35 per square foot on an annual basis, escalating at the rate of 2-percent per month.

Sal L. Rubin, of Coldwell Banker, said that high and unpredictable interest rates will forestall or abort many real estate projects in the San Francisco region. But, he adds, "Overall, the health of downtown San Francisco and the region will continue to attract national and international developers."

Playing the Game With New Set of Rules

(Continued from Page 75)
centage to about the low 90s or high 60s, according to local real estate people.

According to the Office Network Report, downtown Denver, Los Angeles, San Francisco, Pittsburgh and Washington, D.C. are also reporting occupancy rates of more than 99 percent, while overall occupancy rates have decreased in the last six months from 95.1 percent to 94.7 percent.

Because of the lack of space and the high cost of money, there has been less speculative development and more pre-leasing of buildings under construction, real estate experts report. Rents and land prices have been rising, sometimes phenomenally.

In Houston, for example, local real estate firms report that a parcel of land was recently bought for the highest price ever — \$750 per square foot. The previous record was \$380 per square foot, paid earlier this year, which was twice the land's worth.

There are those who blame foreign, and particularly Canadian, investors for this upward price trend. McDonald Williams, president of the Dallas-based development firm of Trammell Crow, said: "Canadian investors have committed serious market excesses by overbuilding and paying extra-high prices. They think anything they put on the market will sell just as fast as they can build it. And they've been throwing a lot of space on the market indiscriminately."

Julien Studley, of the New York-based real estate company that bears his name, said: "They are moving into areas they don't

know that well, paying high prices, and they could create market destabilization and overbuilding."

Rental rates for prime downtown office space have increased overall by about 28 percent in the past year and by about 30 percent in the past six months, according to the Office Network, which notes the highest rental rate in the country is in New York City — at \$60 per square foot. The average rental rate there, however, is \$45 per square foot. In Chicago it is about \$25-\$35 per square foot; in Miami, about \$14-\$28 per square foot; Atlanta, about \$16-\$30 per square foot; Houston and Dallas, the mid-\$20s.

Among some of the changes that have been taking place in the real estate market, said Mr. Bahenborg of Brooks Harvey, has been the use of more creative financing techniques — all equity financing, blended debt and equity financing, convertible mortgages, joint ventures and commercial bank loans without take-outs.

Institutional Investors

Another new market feature has been the increasing involvement of institutions such as pension funds and insurance companies, which, as development costs rise, are gaining more control over property than in the past. In general, developers' participation has been decreasing — to under the traditional 50-percent level.

"Because of the cost of money," said Robert Cousins, president of the land development division at the Atlanta-based Cousins Properties, Inc., "we are seeing more institutional investors calling the shot as far as how much of the pie

they'll get. They're requiring more than the 50-50 participation and preferential returns."

Pointing to the numbers of developers who have been forced out of business because of the tight money situation, some analysts say that, of those who remain, more and more will be developing for institutions and not for themselves, and that, as in Europe, the market will primarily be owned by institutions. Others have their doubts.

"There is some indication that developers will become more manufacturers than owners, but not those major ones with land holdings," said Mr. Williams of Trammell Crow.

Real estate man Charles Uristadt said that large public corporations have been involved in real estate development before, but because they move so slowly and hold risk-taking to a minimum, they are not likely to be very effective as developers.

In the meantime, developers are becoming much more sophisticated, changing their practices to meet the new market conditions.

Cousins Properties, Inc. in Atlanta, for example, used to be involved in almost every form of real estate. "Now," said Robert Cousins, "we're doing a few things really well instead of many things."

Trammell Crow's president, Mr. Williams, said his company is involved in a significant number of joint ventures and forward sales (generally selling small properties free and clear to pension funds, which get 100-percent equity for leasing and management rights) — arrangements that were done very little in the past.

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Ready Money Talks In California Deals

By Joel Stratte-Clare

SAN FRANCISCO — Paul Erdman, the gloom-and-doom author of "The Crash of '79," ends his latest novel with protagonist Frank Rogers purchasing a Sonoma county vineyard with Swiss francs from an Iranian. Herb Caen, a popular columnist here, reports that condominiums at Bush and Taylor Streets are selling fast to "people of the Far Eastern persuasion and a \$1.5 million penthouse has been claimed by a *Millionaire*." In San Diego a contractor is threatening to abandon a partly completed housing project unless "someone from Shangha-La can bring me some cash and form a joint venture."

Trend-setting California, no stranger to high real estate prices and creative financing schemes, is now the place where ready money talks. The tight lending situation has opened the entire real estate market to investors with liquidity insulated from the high cost of financing. There are numerous opportunities in every sector of the market as housing mortgages are foreclosed, short-term loans to builders come due and new capital is required for commercial construction. In addition, the prospects for long-term capital safety seem assured due to continual growth and a solid industrial base.

"California is an exceptional place to be for the next 18 months if you're a cash-heavy investor," says Mr. Erdman, who owns a 150 acre ranch in Healdsburg. "It's a sophisticated market and you must have some street sense, but the buyer can name the price in many instances involving residential, agricultural and commercial property."

California is a state of theatrics and exaggeration, and local publications are transforming the current flat situation into a doomsday catastrophe. Recent magazine stories in San Francisco and Los Angeles were titled "Bye-By Boomtown" and "The Land Bubble Has Burst." Although quite a few builders and homeowners are overextended, most observers predict an acceleration of growth at a slightly decreasing rate.

"California continues to increase in population and income level largely because of the expansion of high technology companies," says Wylie Greg of the real estate industry group at SRI International in Menlo Park. "Foreign participation seems to be steadily growing and numerous international syndications are being formed to take over commercial and industrial property."

Foreign Sources

Adds David Ball, a vice president at Wells Fargo Bank's real estate industry group, "Real estate values in California remain a bargain compared to other countries and investments are being made by a number of foreign sources — particularly Canadian, Dutch, Middle East and Germany — principally in office buildings and industrial parks."

California, which had an employment growth of 3.7 percent annually in 1972-73 and attracted 3 million additional people during that period, will continue to be a popular place to live because of the working environment, educational facilities and general quality of life. Although high housing costs could impede the pace of growth, California's population is expected to rise from the current 23 million to 30.3 million by the year 2000, according to a study by Larry Kimball of the University of California at Los Angeles and Da-

vid Shulman of the University of California at Riverside. The study predicts increased demand for residential and commercial property and projects increased growth in inland regions like Fresno and Bakersfield.

"This is the time to take advantage of a situation with opportunities which resemble those we saw during the 1974-75 recession," says Harold Ellis Jr., president of Grubb and Ellis real estate brokers in Oakland.

"Office buildings, commercial and industrial property are especially attractive and substantial amounts of new capital are required," says Mr. Ellis. "In addition, there are large number of overextended entrepreneurs who need financing."

Most foreign investments in California, which are led by a noticeable inflow of Canadian and Asian funds, have traditionally been in the metropolitan markets of San Francisco and Los Angeles. Large foreign groups, who usually invest long-term because of the safety factor and generally accept lower yields than their U.S. counterparts, have increasingly been joined by foreign pension funds and banks who often form joint ventures with local groups.

Lesser Known Parts

Canadian participation is the most obvious and some current projects include Cadillac Fairview's \$1.2-billion redevelopment program in Los Angeles in a 50-50 partnership with U.S. developers, Campeau Corp.'s \$400-million joint venture in San Jose, Olympia and York's \$500-million commercial complex in San Francisco and Bramalea Ltd.'s \$400-million retail development in Chino Hills.

Most observers expect to see both foreign and domestic investment move to lesser known parts of the state.

Foreigners investing in California have usually preferred a marginal deal in Beverly Hills to an excellent purchase in another part of the state," says Sigmund Berg, an instructor of advanced real estate financing at the University of California at Berkeley. "This attitude must change if they want to keep ahead of the game in the future."

Albert Coppin, president of Keegan and Coppin real estate company in northern California, contends that industrial property in some metropolitan areas is just about exhausted and believes foreign concerns should investigate secondary market areas where larger population and industrial growth is anticipated.

"The best way to enter an area like Sonoma County where many research and development operations are getting underway," suggests Mr. Coppin, "is to form a joint venture with established local companies who know the market and have the required connections."

Some Californian brokers feel they have a tarnished image in the eyes of foreigners and are refining the approach required to attract outside investment.

"California has a particularly bad image among Europeans because of the unsuccessful get-rich-quick schemes which have been pursued in the past," says Carsten Mikkelsen, president of Aire Financial Corp. in San Francisco, which has formed numerous international syndications to invest in California property. "We must realize that most foreign investors are looking for capital safety rather than short-term appreciation and should be regarded as a very valuable source of future financing."

Most observers of the real estate market in California — and there are many — believe that the static situation will not be altered until the ultimate direction of President Reagan's economic policies is firmly established. Although many contractors and builders are hard pressed, a large number of homeowners are attempting to wait for an economic rebound before selling. Construction and housing starts are depressed but the situation does not appear to be as bleak as that in 1974-75.

"I expect the downturn to last another year but demand is still exceeding supply in housing, for example, because of several years of sluggish construction activity," says Earl Shumate, president of Scott-McCall & Co., a large residential real estate firm in Marin County.

Still, some housing and land prices have decreased. In Beverly Hills, a home which sold for \$165,000 in 1970 went for \$11.1 million in 1980. Today, says the agent who handled the transaction, that home would fetch no more than \$900,000 because of the high interest rate.

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New York: Major Development Projects Are Clearing Final Hurdles

(Continued from Page 75)

tower at 50th Street that became a victim of the controversy over density in midtown. It was forced to cut back four full office floors that had already been leased in advance of construction to tenants when the city decided, for the first time, to grant less than the full bonus in extra building space for provision of certain public amenities.

The other project, two blocks south, is a 50-story red granite shaft designed by Skidmore Owings & Merrill that breaks new structural design ground for slenderness. This is a joint venture with Cadillac-Fairview, the Toronto-based developer that recently acquired from Citibank a large site for development on Lexington Avenue just south of Citicorp Center. The bank also sold another block-front assemblage across Third Avenue from its skyscraper on stilts to Gerald Hines, who has commissioned Mr. Johnson and Mr. Burge to design his first project in New York City.

Skidmore, Owings & Merrill has designed two other unusual midtown projects, both for Madison Equities: One is a needle-like mixed-use tower south of the new mixed-use project of the Museum of Modern Art on West 53rd Street; the other is a 14-sided office tower with four atria at 54th Street on Third Avenue. The same architectural firm has also designed a 23-story atrium for the new Irving Trust Operations Center north of the World Trade Center downtown.

The most controversial project in Manhattan is the one proposed by Howard P. Ronson and designed by the office of Edward Durrell Stone for the St. Bartholomew Protestant Episcopal Church adjoining its landmark church structure on Park Avenue at 50th Street. Mr. Ronson, who has been an active developer in Europe for several years, has become one of the busiest developers in New York.

In addition to the St. Bartholomew project, Mr. Ronson has recently announced four other new buildings in addition to his partial interest in the new slender tower at 767 Third Avenue. His other new projects include two on lower Broadway, one on East 56th Street and 175 Water Street, all designed by the architectural firm of Fox & Fowle.

The controversy over the St. Bartholomew project epitomizes the city's continuing struggle to preserve its landmarks as developers search for every possible opportunity... Many sites that once were considered unbuildable, impractical or too controversial are succumbing.

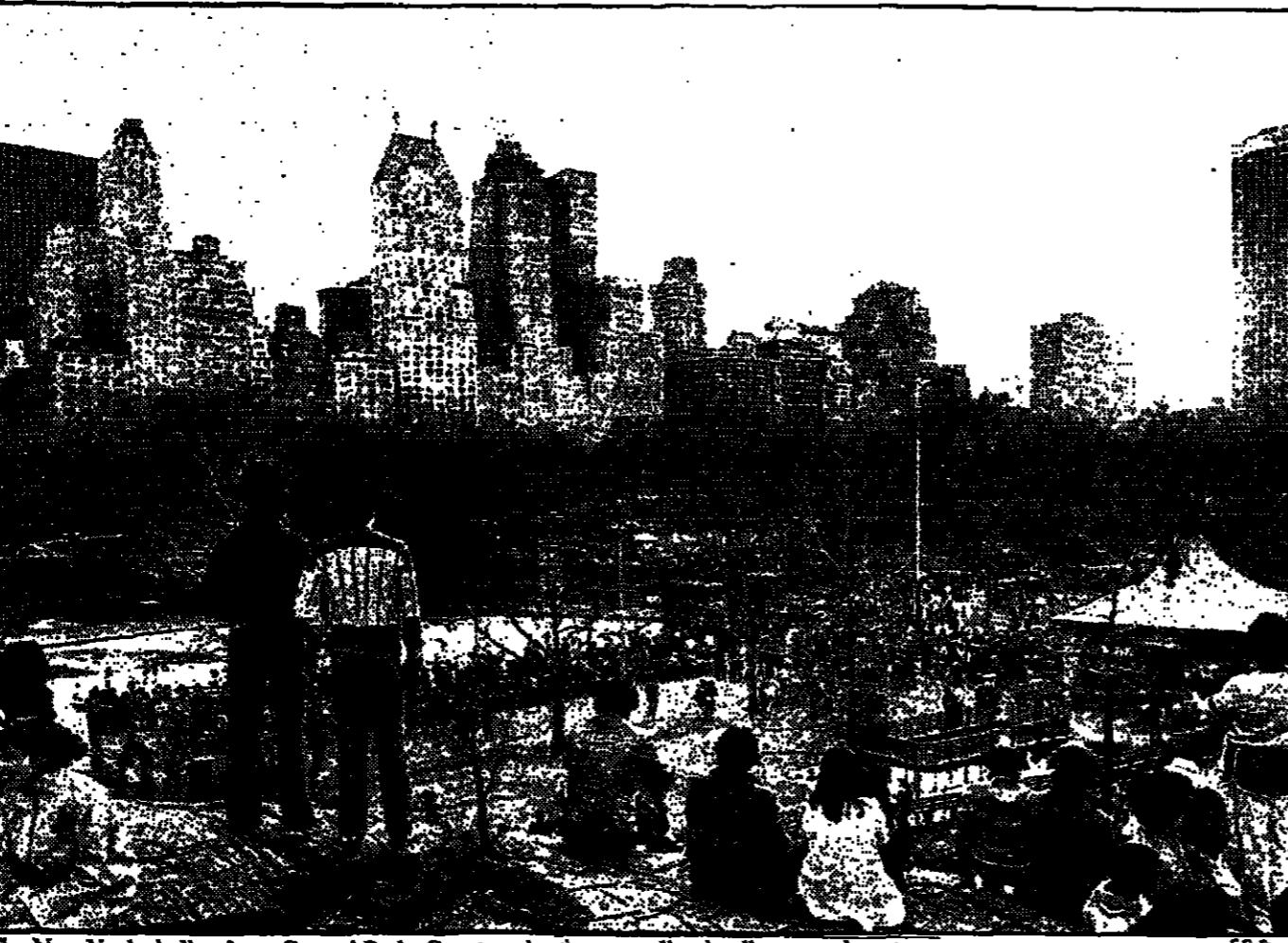
Eclectic Melange

To the east, the wide boulevard of Water Street represents perhaps the city's most eclectic melange of postwar projects that starts from the ferries at the Battery and runs up to the South Street Seaport, around which a new cluster of office buildings is emerging including 199 Water Street, a 39-story tower whose complex facade designed by Swank Hayden & Connell is meant to relate to its immediate neighbors by having its "order larger than the architecture itself." The same design firm was responsible for the reflective-glass Continental Insurance Co. tower now rising from a slanted base at 180 Maiden Lane.

At the South Street Seaport, the Rouse Co. intends to build a major retail facility similar to its project at Fenway Hall in Boston. The Rouse proposal has met with substantial criticism from much of the design community for its contemporary and less than historically authentic architectural approach to its new construction. Nevertheless, apart from some local and vocal loft tenants, it has been widely and enthusiastically endorsed by most downtown interests as a most important boon to the area that will add a lively element of street life and become an important destination and attraction.

Combined with the several thousand new apartments at Battery Park City and the continuing spread of loft conversions and related retail enterprises from the Soho district, the seaport is viewed as a very important ingredient in the changing image of downtown.

There is less agreement, however, on how far and wide the potential benefits from the seaport and its new office cluster will reach. Some experts view the Lower Manhattan office market as traditionally fragmented by industry while others believe that such districts are dissolving. There are those who maintain that there are



The New York skyline from Central Park: Construction is proceeding in all sectors downtown.

The controversy over the St. Bartholomew project epitomizes the city's continuing struggle to preserve its landmarks as developers search for every possible opportunity... Many sites that once were considered unbuildable, impractical or too controversial are succumbing.

physical limits to the size of business districts related to how far a pedestrian can easily traverse at lunchtime.

"The good side," Simon Milde of Jones Lang Wootton, the international real estate consulting concern, said, "is the East River. Battery Park City may be pleasing, but it just can't compare with the excitement and new ambience around the seaport as a place to work and play. Furthermore the orientation on the East River is not only to the financial district and City Hall to the West but also to the river to the east, whereas much of the West Side is not oriented to the Hudson River. In addition, from the east midtown area the Battery Park City area is as not as accessible by surface transportation as the Seaport district."

Construction is proceeding in all sectors downtown. Mr. Klein plans to begin construction soon for a Philip Johnson-John Burgee office tower at 33 Maiden Lane that is a re-creation of a medieval fortress. Nearby, Olympia & York, the Toronto-based developer that has commissioned Cesar Pelli to design its 6 million square feet of office space at Battery Park City, recently acquired a major assemblage at 23 Broad Street, across the street from a recently announced new tower at 40 Broad Street for the British Airways Pension Scheme.

And Larry Silverstein is moving ahead with a 1.8-million-square-foot reflective glass tower at Seven World Trade Center designed by Emery Roth & Sons with an enclosed skywalk connecting to the building's plaza and vast concourse facilities.

John L. Dowling, executive vice president of Cushman & Wakefield Inc., observed that "the incre-

mental additions to supply continue to fall behind demand as the basic industries of banking, investments, insurance and communications continue to consolidate their dominant position in the city."

He noted, however, that the combined factors of escalating land prices, exacerbated by the proposed down-zoning in the east midtown area, combined with the inherent cost of money involved in community and zoning approvals, construction and financing costs are pricing the product at a level which, while affordable by the banking community and other industries, is getting beyond the ability of the bulk service companies to afford. As the large users either relocate some or all of their operations to reduce the impact of New York rents on their profitability, this, coupled with significant new real estate tax assessments, can possibly reduce rents in a weakening economy."

The real differential between the city and its suburbs is vast but to the surprise of many experts has not yet resulted in substantial relocation.

While maintaining that "there is a lot of pent-up demand downtown," Mr. Dowling said he believed much of the demand could relocate to a new 9-million-square-foot, mixed-use project planned by the Glomac Organization of Columbus, Ohio, and the Mel Simon Co. on a large water-

front site in Hackensack and Hoboken, N.J.

New suburban projects in New Jersey can still be rented for under \$20 a square foot a year, while new construction in lower Manhattan is about \$35 or so, and prime Park Avenue space is being offered in the \$65 range.

A recent Jones Lang Wootton downtown survey indicated that about 2.5 million square feet of office space was absorbed in each of the last three years and that, "even assuming that all the potential development sites are developed with the amount already pre-leased, there will be virtually no space available in 1982 or 1983. Even considering the massive development of Battery Park City, we project the vacancy in 1984 and 1985 to be only approximately 5 percent in each year."

Edward S. Gordon & Co., a leading leasing and management organization, reported that vacancies downtown amounted to about 2.4 percent and had decreased by 50 percent since the third quarter of last year. It noted that a large block of space was recently offered for \$40 a square foot, the first time that level had been broached downtown.

The traditional importance of location downtown, Mr. Gordon said, is changing as industries are scattering. "Going forward, there will not be a specific industry in a specific location just as the upturn market is sprinkling the universe with all professions."

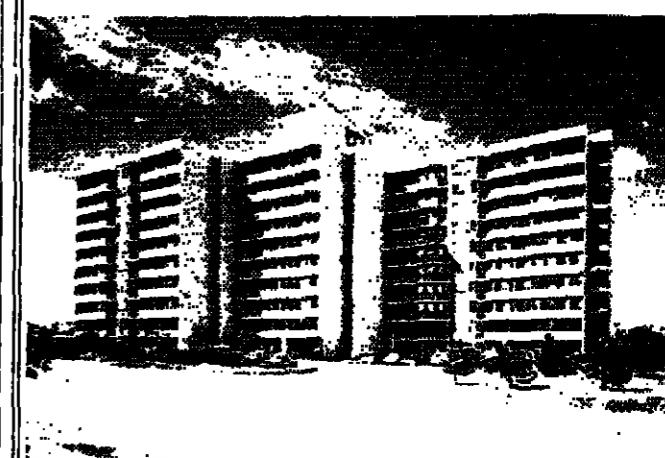
Bertind F. French, vice chairman of Cushman & Wakefield Inc., noted that "a number of midtown tenants who cannot find space in midtown or who are not willing to pay the prices are exploring downtown seriously."

Jerry I. Speyer of Fishman Speyer Properties said that the city "continues to enjoy the benefits of little supply and high demand; however, we are on balance stabilizing although they continue to increase in certain locations." He expressed a little more concern about the downtown market, where "the rents required for new construction are higher than the market." In midtown, he said that the West 42d Street project, which would preserve many movie theaters and reconstruct them to legitimate theaters, while adding new office buildings and a hotel or apartment building, would be "a great boon to the city." He was "waiting anxiously to see if it will go ahead." The city recently announced that it had received 27 responses to a request for proposals for the area's development.

The new zoning, which seeks to divert development pressures from the east midtown area to the west of the Avenue of the Americas and south of 42d Street, establishes a new system of evaluating a building's design and impact on light and air on its street. Mr. Speyer noted that the system is "not less complicated" than existing zoning, but said he did not expect it to be rejected.

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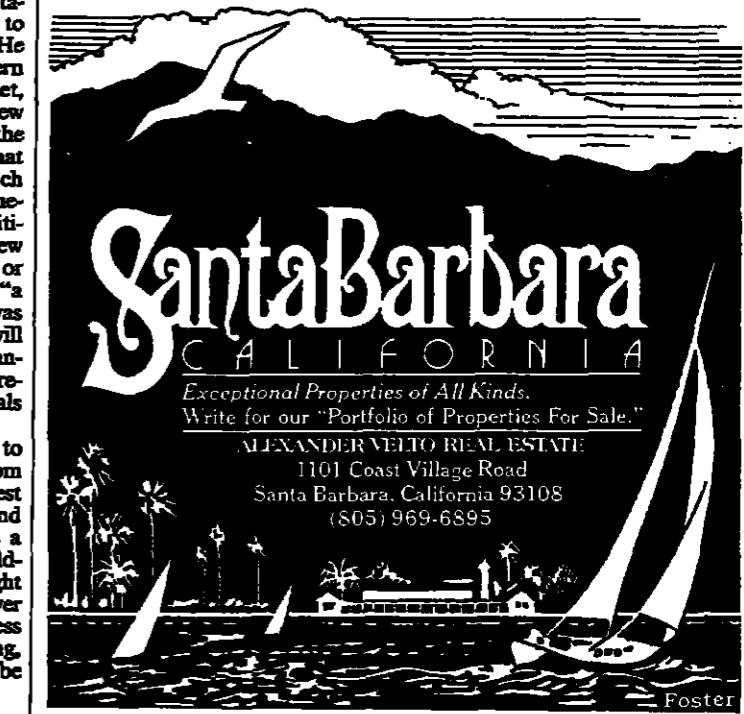
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Despite Obstacles, Canadian Real Estate Industry Optimistic on '82

By Craig Justice

WHEN Canadian developers plan an office project, they estimate a return in the 12 to 13 percent range before financing. But with conventional financing costs in the 17 to 20 percent range, how is it that developments are still being built, and planned, for profit?

Or why is it that, when the U.S. residential market was relatively flat during much of 1980 and the first half of 1981, north of the border — most notably around Vancouver and Toronto — the market was explosive?

The traditional patterns of Canadian real estate are shifting, causing family homeowners, investors

and developers to change also. In spite of the challenging obstacles — especially the likely prospect of high interest rates continuing — residential and commercial real estate markets in Canada are looking forward to another strong year in 1982.

Canadian real estate is seen as a good long-term bet. According to George J. Cormack, president of residential services for A.E. LePage Ltd. (Canada's largest real estate organization), Canada is the land that many around the world view as the greatest country one can claim citizenship to — a country full of promise and potential."

Mr. Cormack's remarks appeared in "Canadian Real Es-

tate — 1982," a report just released by A.E. LePage. Each year, LePage prepares a survey that provides a comprehensive analysis and forecast of the major markets in Canadian real estate. This year's edition also contains essays written by LePage executives that examine significant trends affecting the market.

J. Chris Davis, LePage's president, sees the real estate business in Canada evolving into a high-technology industry. As the potential rewards — and costs from mistakes — of investment have skyrocketed, more sophisticated research and analytical techniques are made. One result has been a change in the relationship between

investors, developers and users. Their roles, once distinct, have become interchangeable. This has led some firms to begin exploring new ways to extract the most from their property, including the use of real estate resources as a cash-flow generator.

The commercial real estate market continues to fare well. Developers have had to adapt to a situation where high interest rates have become the norm. They have done this by no longer relying solely on banks to finance projects, but have started to seek money from large institutions — such as pension funds — and syndications to large numbers of investors, who are on the lookout for sound opportunities to protect their assets from inflation. Foreign capital is also playing a greater role.

Downtown Core Areas

One can expect land values in cities' downtown core areas to continue to rise sharply, reflecting limited availability. High demand for existing space and inflation should also push commercial rents upward in most cities, with leases being written for shorter durations.

Canada is undergoing a demographic population shift toward the western and eastern regions, putting more pressure on housing supply in those areas. Also, demand is expected to increase for resort and cottage property.

Rental Supply

The future does not look as bright for those wishing to rent their living accommodations, however. Supply will continue to be short in most centers. Condominiums have become more attractive to investors, and developers are building more with the intention of selling. On the other hand, LePage foresees a gradual easing of rent controls, which will encourage added rental construction.

A city by city summary of LePage's commercial findings follows:

TORONTO: 1981 was a record year for this international city's commercial market, which is becoming a center for offshore investment. Looking ahead to 1982 the LePage survey team believes this activity will continue unabated. Although land prices in the central core could surpass \$800 or even \$1,000 a square foot, these prices are still comparatively low on an international scale.

Finally, intelligent commercial investors will continue to look for the long-term financial gains that are associated with appreciating values, as opposed to immediate rewards. For first-class developments in prime locations, short-term returns in the 6 to 8 percent range will be considered attractive.

Average prices for the resale of houses increased approximately 13 percent as a whole for major Canadian centers when compared with 1980 values. "Even though house prices have risen dramatically in many of our cities," said Gordon C. Gray, chairman and chief executive officer of LePage, "it is doubtful that those same houses could be replaced today at lower cost."

LePage predicts that the residential resale market will continue to be an excellent hedge against inflation as prices increase 2 to 3 percent more than inflation.

Panic-Buying

Mr. Gray believes that the Canadian people have come to accept high inflation as inevitable. This explains the phenomenon of what could be called panic-buying — and the booming trade — during the last 18 months in the residential market. Further, gains

for apartment buildings. Purchases of new buildings, if they can be

made from the resale of homes in Canada are exempted from taxation.

In spite of higher prices, many Canadians will still be able to fulfill their dreams of home ownership, although the packages they end up with may well be different from those of their parents. Smaller and more efficient designs, increased density of construction, and more flexible mortgage rates indexed to inflation are expected.

LePage forecasts that year-end mortgage rates will be around 19 percent, with movement in 1982 toward a range of 16 to 18 percent. Although 200,000 housing starts are required annually to meet demand, new home construction in 1981 is confirmed to run in the 160,000 to 175,000 unit range. LePage forecasts that, within the next two years, Canada will experience a significant upturn in economic activity, and residential housing will share in this growth. Housing starts in 1982 should rise to 185,000, with sales increasing to an estimated 102,900 from the estimated 91,500 for this year.

Canada is undergoing a demographic population shift toward the western and eastern regions, putting more pressure on housing supply in those areas. Also, demand is expected to increase for resort and cottage property.

EDMONTON: Private business in green parks and river valleys is Canada's largest — in area. For the last four years, Edmonton has registered total building permits exceeding \$1 billion annually, and should have little trouble continuing its explosive growth.

Edmonton will continue its development as a downtown office city. The industrial market, due to the setting of so many uncertainties in 1981, will jump ahead by leaps and bounds.

Although Edmonton is not an investor's haven

because of low return innovative financing can make the city attractive.

An increasing population, expanding work force and service-related industries combine to make

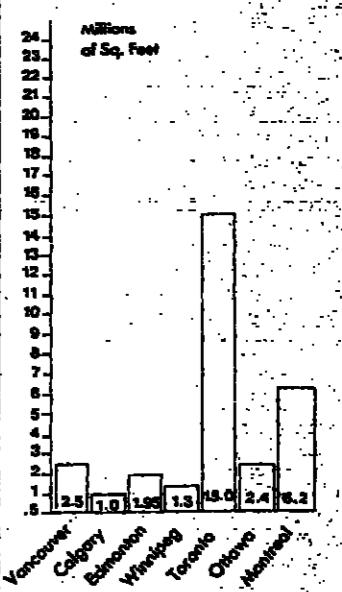
NORTH AMERICAN REAL ESTATE

tioned in the middle of the Grand Trunk Corridor in southwestern Ontario, which is Canada's most affluent and populous region. This makes it an ideal manufacturing and business location. Strong demand for prime office space, which will cost \$11 to \$16.50 per square foot net in 1982, means that the four potential office locations existing throughout the city will likely come under close scrutiny by office developers.

High interest rates will result in more properties coming to the market for investors, as owners decide to sell rather than refinance. It is anticipated that builders will become more active in multiple unit residential buildings. Other ongoing opportunities for investors will be to revitalize older buildings for retail, food service and specialized office use.

WINNIPEG: Residents of this city may have one less thing to complain about next year. Al-

Vacant Industrial Space Comparison by Major City (1982)



in comparison with other Canadian centers. Although there is a general shortage of investment properties, there will be some activity in the condominium and rental apartment markets.

Industrial vacancies — which rent for a high of \$3.30 per square foot net — are dwindling steadily, and construction of new speculative industrial space is expected to get under way to fill the projected demand for 1982. Interest rates

are 15 percent for a record's cost.

MONTREAL: In spite of the re-election of the Parti Quebecois last April, Montreal's diagnosis is healthy. Several large office projects are going ahead as planned, although they will not alleviate the present shortage — core vacancy is less than 1 percent.

A potentially new area of development is the office condominium, primarily aimed at small tenants who have a static space requirement and who appreciate the benefits of owning the real estate they use. One such project, a \$30-million 200,000-square-foot office condominium complex, opened in 1981, and more should follow.

Land is plentiful, and the prices are low — even in the city's core (\$150 to \$175) — and should attract investors, but developers will be reluctant to bring on new space unless they are assured of tenants beforehand.

Investors will also be interested in apartment buildings. Purchases of new buildings, if they can be

Edmonton an excellent place to invest. The province's overall tax assessment is lower, which will also encourage more investment.

VANCOUVER: The economic picture for British Columbia, which is a favorite among tourists, is looking bright. Private industry has committed \$34-million for a convention center while the provincial government is committed to develop B.C. Place — which will include a 60,000-seat covered amphitheater and large residential and office developments.

In the office leasing market, prime space in the city core is virtually unavailable. This condition should improve somewhat in 1983 when a new supply of 2 million square feet is expected to create a slight surplus.

The healthy economy has created a strong demand for industrial real estate in the Vancouver area resulting in an extremely active market. Land is being made available in areas where supply is very limited as a result of planning on the part of builders in liaison with the brokerage community.

The frantic activity in the investment market during the last few years appears to be over as good investments become more scarce. Investors are becoming reluctant to accept short-term negative cash flows in the expectation that properties will appreciate dramatically in the longer term.

LONDON: With more than 250,000 people, London is pos-

though the weather is not expected to vary greatly, the economy, for a change, is tending toward the positive. Bringing about this shift are various "mega-projects" planned for Manitoba's utility and resource sectors amounting to \$3.5 billion, and a commitment of \$36 million in government funds aimed at revitalizing central Winnipeg during the next five years.

Winnipeg's real estate is under-valued, and private investors, as opposed to institutions, are expected to set the pace. With the projected rise in rental rates, office building investment will become more appealing. A lower vacancy rate coupled with the elimination of rent controls is also expected to make the rental housing market attractive to investors.

REGINA: Saskatchewan is expected to top every other province in terms of economic growth this year. There is movement toward more positive growth in Regina's commercial market as well and this has the potential of evolving into a boom. The \$125-million Cornwall Center, sponsored by the provincial government, is not only spurring interest in the downtown area, but also increasing land prices, which now are at \$70 to \$125 per square foot.

Developers, however, will have to take a very hard look at the supply situation before considering another office project downtown, although existing space will be attractive to investors during 1982.

Demand for industrial land is expected to remain high, and there should be no problems satisfying it. There is an abundant supply of land — owned by the city — at prices that are among the lowest in western Canada. Greater expansion would probably occur if the city encouraged the existence of private industrial parks.

SASKATOON: Saskatoon's No. 3 city in Canada with respect to dollar value of building permits per capita. The city's business sector is expected to expand about 15 percent in 1982, and a \$100-million downtown development program is being discussed — which would boost land values in the long term. Speculation has already begun.

Saskatoon is beginning to acquire a reputation as a high-technology center, which could give an additional punch to the industrial market.

One of Canada's most active retail markets is Saskatoon. The market for retail space is becoming somewhat tight, and there is a need for more downtown development.

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NEW YORK — As things grow gloomier and gloomier in the housing market, real estate people and builders are looking to the federal government for help, with the hopes of many pinned on programs that fueled the housing spirit of the late 1970s.

One of the areas many real estate people are focusing on is the revival of the mortgage revenue bond market, especially in one-family houses. This market, real estate sources say, was effectively killed by the Mortgage Subsidy Bond Tax Act of 1980.

Mortgage revenue bonds are an outgrowth of the "moral obligation" bond idea developed by John Mitchell, the Wall Street lawyer

Removal of mortgage revenue bonds in single-family housing has been an important element.

who later gained fame and infamy as former President Nixon's Attorney General. Mr. Mitchell developed his idea to avoid the necessity of popular referendums on general obligation bonds in the wake of the defeat of several major bond issues.

These moral obligation bonds did not constitute an encumbrance against state revenues. The state only recognized a "moral" obligation to back them. One energetic user of the concept was the Urban Development Corporation of New York State. In the housing area, the UDC and other state agencies used the bonds to help finance large multifamily dwellings.

In the mid 1970s, the so-called Chicago Plan developed, named after the place where it was first used, extending the mortgage revenue bond idea to the area of single-family homes. Income from the sale of the bonds was used to subsidize mortgage interest rates. At first, legislation set income limits for those who could take advantage of these low-mortgage rates. But as they came to be issued by localities as well as states, such limits tended to disappear and the low mortgage rates became incentives open to all.

This development led to an explosion in the building of one-family homes. According to figures published by the Daily Bond Buyer, the newspaper bible of the industry, mortgage revenue bonds issued to back the building of single-family homes mushroomed from a billion dollars in 1977 to \$3.2 billion in 1978, \$6.4 billion in 1979 and \$10.1 billion in 1980. This growth was curtailed by the 1980 Mortgage Subsidy Bond Act. Total sales of such mortgage revenue bonds in 1981 will amount only to \$1 billion, according to industry analysts, but only \$50 million of that total is in reality new issues. The rest is related to earlier issues.

The provision in the 1980 law that sank the mortgage revenue bond market was that bond income could retroactively become taxable if the projects covered were judged to have violated federal eligibility requirements. Since the main attraction of mortgage revenue bonds was that they carried the same kind of tax advantages as general obligation government bonds, this threat to their tax-exemption status proved a serious wound.

Removal of mortgage revenue bonds as a factor in the housing single-family housing industry has proven almost as great a blow to the industry as soaring interest rates, according to some observers.

They feel, however, that other state agency housing bonds, including bonds for low-income housing, should be looked at closely by investors. Since these bonds are backed by rental income, as well as the state's good name, and since the housing market is tight because of the entry of the "baby boom" children into the market, such bonds could be a sensible investment.

Of course, such bonds are more attractive to those who can take advantage of the tax breaks they offer, which means those paying U.S. federal taxes.

Industry experts differ on the chances for relief from the 1980 act. Some point to the fact that many in the Reagan administration are reluctant to open up debate once again on the carefully molded 1981 tax bill. Others think that the decline in the economy could force action, especially in regard to spurting sales of single-family homes.

Raffle Ticket, Anyone?

The New York Times
NEW YORK — As the popularity of house raffles has increased, so has the vigilance of law enforcement agencies in states where they are prohibited.

A woman in Alabama pleaded guilty last month to a charge of unlawful promotion of gambling after she had tried to raffle her \$60,000 home.

In Tenafly, N.J., a real estate broker threatened with prosecution under the state's gambling laws has sought a court order that would allow her to give away her home in a contest.

Two charitable raffles have been postponed in New York because of objections by the attorney general. In addition, despite the claims of some charities, the Internal Revenue Service does not give tax deductions for contributions made in the expectation of a "personal return," a spokesman said.

With high interest rates and slow home sales, more homeowners are turning to raffles or other variations on games of chance to sell their property. Leo J. Koerzenoer, who publishes a newsletter listing raffles, estimated that more than 100 are being held across the country.

New York's attorney general, Robert Abrams, this month issued a formal opinion declaring that "the law clearly and explicitly prohibits the conveyance of property by any lottery," according to Nathan Riley, a spokesman. Such transfers are void, Mr. Riley said. Some groups had nevertheless planned raffles, hoping the attorney general would look the other way because of their non-profit status.

American Landmark Festivals, a non-profit organization affiliated with the National Parks Service, sold several hundred tickets for the raffle of a \$165,000 apartment on Central Park West before canceling a drawing it had planned for Halloween.

The Arthritis Foundation of Syracuse has been selling \$100 tickets for the raffle of a three-bedroom house in Marcelline, N.Y., since early September, but has stopped until the issue is decided.

Jean Coliz, the Tenafly broker who wants to give her home away in a contest, filed a civil suit against Prosecutor Roger W. Breslin of Bergen County, who had informed her that her plan violated state gambling laws and threatened to prosecute. Mrs. Coliz sought a "declaratory judgment" that the contest "does not constitute a gambling activity," according to her attorney, Richard Abramson. A hearing in New Jersey Superior Court was scheduled for Friday. The outcome was not immediately known.

Raffles are illegal in New Jersey except when they are held by licensed charities, and the use of real estate as a prize is prohibited, according to a spokesman for Attorney General James R. Zazzali. Mrs. Coliz's position is that the contest is a game of skill, but Mr. Breslin said that it falls under the definition of gambling.

Mrs. Coliz offered her three-bedroom Colonial house to the contestant who, for a \$500 fee, best completed the sentence, "I want to win this house because... 25 words or less. She decided on the contest because she had made a \$10,000 down payment on the house but was unable to afford financing for the \$99,500 balance.

She hoped to attract at least 2,500 entries. "Hundreds" of entries have been received, Mrs. Coliz said.

One charity, the Central New York Chapter of the Multiple Sclerosis Society, has decided to hope for the best and is going ahead with its raffle. Barbara Grimaldi, the society's treasurer, said: "Nobody has come to us in the state and said that we shouldn't be doing this. I feel we're on safe territory."

Even in states where raffles are legal, there are other potential problems. Oregon law prohibits lotteries and raffles but not bingo games. Sharon and Zidon Whiterore of Escoda tried to give away their house at a bingo game to benefit a local charity, but were unable to sell enough tickets.

"We needed two more weeks," said Mrs. Whiterore, who came up with the idea after the local district attorney prevented her from holding a raffle.

What made her think of bingo? "When you get desperate, you think of a lot of things," she said.

Removal of mortgage revenue bonds in single-family housing has been an important element.

who later gained fame and infamy as former President Nixon's Attorney General. Mr. Mitchell developed his idea to avoid the necessity of popular referendums on general obligation bonds in the wake of the defeat of several major bond issues.

These moral obligation bonds did not constitute an encumbrance against state revenues. The state only recognized a "moral" obligation to back them. One energetic user of the concept was the Urban Development Corporation of New York State. In the housing area, the UDC and other state agencies used the bonds to help finance large multifamily dwellings.

In the mid 1970s, the so-called Chicago Plan developed, named after the place where it was first used, extending the mortgage revenue bond idea to the area of single-family homes. Income from the sale of the bonds was used to subsidize mortgage interest rates. At first, legislation set income limits for those who could take advantage of these low-mortgage rates. But as they came to be issued by localities as well as states, such limits tended to disappear and the low mortgage rates became incentives open to all.

Pension Funds Have Become a Major Force

NEW YORK — With their tremendous capital resources and changing investment habits, pension funds have become an important force in the real estate market. And while real estate analysts all agree about their interest and potentially dominating influence, there are differing opinions as to just how much and how they will invest.

According to a recent survey of industry experts by the trade magazine National Real Estate Investor, U.S. pension funds have been "shell shocked" from sales pitches by ambitious real estate people. Thus, instead of investing directly, they mostly invest through their insurance company managers.

Some real estate experts believe they will continue to invest cautiously in the real estate market, through open-end or closed-end continuing funds. Others say this dominant position of the life insurance companies will decrease as U.S. pension funds combine direct investment and participation in a closed-end fund, which they can control and understand better.

"Pension funds are going to dominate the real estate market," said Sheldon Sevak, president of Goldman Sachs Realty Co. in New York.

He pointed out that with gross assets of about \$700 billion and projected gross assets of \$1 trillion by 1985 and \$2 trillion by 1990 and talk of increasing investment in real estate from 2 percent to 10 percent of gross assets by 1985,

"that's a lot of money and a lot of real estate. It will keep the market very competitive."

Paul Saylor, who heads Ackerman Advisory Associates in Atlanta, however, questions whether the current interest by U.S. pension funds will continue to increase at projected levels.

"Today they are doing it because they are inundated with deals, but why should they only invest in real estate, which is such an unpredictable market?" he said. "Real estate should be part of a portfolio, balancing investments in stocks and bonds. It shouldn't be the major investment."

In Europe, pension funds have been investing in real estate for years, anywhere from 20 percent to 30 percent of their assets. The British and Dutch pension funds, which are allowed to invest abroad and were prompted by the large market and higher returns than in Europe, have been investing in the United States.

Henri Alster, president of Alster International, a real estate advisory firm in New York with many pension fund clients, said there are currently about 20 European pension funds investing in the United States, where more than 25 percent of their real estate holdings are located.

They began seriously investing in the United States in 1975, prompted by a depression in real estate prices, the availability of real estate investment trust money, a cheap dollar, comparatively cheap real estate prices and a special tax

status, which exempted foreigners from capital gains taxes on real estate transactions, he said.

Among the first and most visible real estate acquisitions by European pension funds, noted Mr. Alster, was the Plaza in Washington, D.C., by the Dutch Shell pension fund.

Europeans, said James Darr, a senior vice president at Bachelder, "are more mature in their understanding of the mortgage market and have more experience than Americans in acquiring real estate with short-term mortgages."

And, he added, as they have become more familiar with the U.S. market, they are becoming more

— LINDA BERNIER

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Wall Street Firms Get Into the Market

NEW YORK — In the last five or six years, many of the large Wall Street investment banking and securities houses have made an active push to establish themselves in the real estate business.

Companies such as Merrill Lynch, Morgan Stanley, Shearson Lehman Hutton, Smith Barney and Paine Webber are offering a wide variety of real estate services, some gearing more toward the syndication business, others toward real estate investment counseling.

Different Expertise

Not all the investment banking firms offer all these services, and some are stronger in certain fields. Some have developed their real estate expertise by acquiring established real estate firms or hiring people to build their own real estate company. Others, such as Bachelder, have taken a joint venture approach with companies that have real estate expertise.

William S. Bahnenburg Jr., president of Brooks Harvey, a 60-year-old real estate firm acquired by Morgan Stanley in 1969, said the Wall Street firm became more involved in real estate when it realigned more and more clients had assets in real estate.

Foreign Investors

According to James Darr, a senior vice president at Bachelder, Halsey, one of the reasons his firm was prompted to go into the real estate business was to provide a service to foreign investors, many of whom felt they were getting real estate offerings of inferior quality compared to those offered Americans.

But James Heggie, vice president of diversified financial services at Merrill Lynch, put it more bluntly: As more and more clients began asking for properties and Merrill Lynch became aware, through studies and surveys, by how much the real estate market dwarfs the securities market, providing residential real estate brokers alone with more than double the commissions made by stock brokers, "we concluded that our historical development as a securities brokerage firm could be applied to the real estate business. We saw this insatiable appetite for tax-sheltered limited partnerships developing. He noted that in the last five years the main expansionary push at his company has been the development of its real estate services.

Merrill Lynch acquired the real estate financing firm Hubbard, Westervelt and Mottley Inc. in 1968, began actively marketing internationally in 1976-1977 and expanded its services even further in 1978 with the acquisition of certain subsidiaries of the mortgage banking and brokerage firm Hutton, Paige Holding Corp. Today real estate investment and financing at Merrill Lynch is handled by Merrill Lynch Hubbard, while real estate residential and commercial brokerage is handled by Merrill Lynch Realty.

Among the real estate services

Another president of a real estate investment advisory firm, based in Atlanta, was not quite as harsh in his criticism: "Basically, they have done a good job overall in finding proper investments and giving clients good yields, but they have a bit of tunnel vision right now. They are not really reviewing the market to see what is going on. And the bubble could burst as it did in the early 1970s. The ability to react to trends is less, the greater the size of the institution."

He noted, for example, that while office buildings are currently the hot investment items for institutions and large corporations, they are already being overbuilt in many areas around the country.

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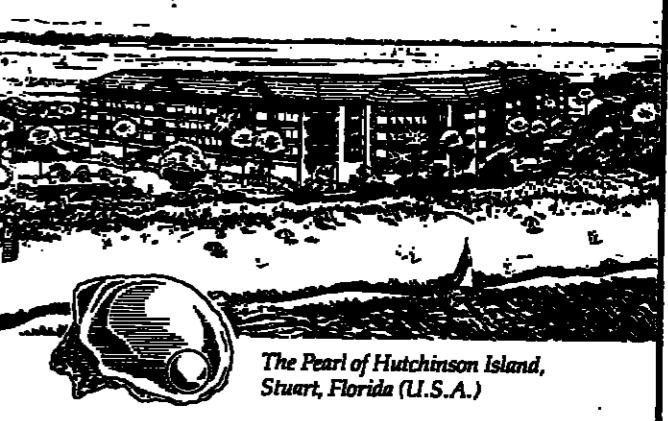
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Rally Propels
Bond Volume
To a Record

By Carl Gewirtz

International Herald Tribune

PARIS — Bond prices continued rising last week, driving yields lower and bond buyers into a frenzy.

The breadth of the buying spree was reflected in the record \$15.16 billion turnover reported for the week by the market's two clearing systems. Euroclear reported handling transactions valued at \$9.86 billion, up from \$6.45 billion a week earlier, while Cedel's volume rose to \$5.3 billion from \$3.96 billion.

Borrowers, meanwhile, indicated they were in no hurry to come to the market, believing that rates

EUROBONDS

would continue to soften. So far, they have been right. Average yields on seasoned issues with up to five years maturity eased to 13.9 from 14.5 percent a week ago while yields on 15-year paper slipped to 14.3 from 14.5 percent. White Weld Securities reported.

Two powerful forces are pulling money into the bond market. First, short-term interest rates continued to ease, making it profitable for dealers to add bonds to their inventories. Second, there is every reason to believe that, with the U.S. economy slowing rapidly and with the money supply growth still below target, rates will continue to soften.

Strength of Dollar

Almost as startling as the decline in money market rates is how well the dollar has held up on the foreign exchange market. It ended the week in Europe at 2.252 Deutsche marks — its best level so far this month and putting the dollar where it was at the end of last month.

But on Oct. 30 there was 4-percentage-point differential favoring the dollar in short-term interest rates. Three-month Eurodolars then were 15.4 percent bid compared to 11.4 percent on three-month Euromarks. By contrast, on Friday three-month Eurodolars were 12.4 percent while three-month Euromarks were quoted at 10.4 percent. That two-point differential stands in sharp contrast to the peak 10-point differential recorded early this year.

At that time, accepted wisdom was that the dollar would lose weight against the mark once the differential was narrowed to more reasonable levels. But this has not happened. "Nor" is there any sign that the market anticipates this in the immediate future as funds are not pouring into the mark.

Concerns for Rally

This means that European and other non-dollar based investors who bought high-coupon dollar bonds have not suffered any substantial foreign exchange losses. The dollar is down 12 percent from its late August peak of 2.56 DM, but it currently stands 16 percent above the level at which it started this year. That kind of performance helps pull money into the bond market.

All that said, bankers remain wary about how much further the bond market rally can run. Bankers recall ruefully two previous experiences this year when roaring bull markets suddenly collapsed into route. And Henry Kaufman, the Salomon Brothers economist who has called the shots with considerable accuracy, warned on Fri-

(Continued on Page 19, Col. 3)

Moussa's Fall: A Story of Miscues, Mistrust and Grave Miscalculation

By Joseph Fitchett

International Herald Tribune

PARIS — Pierre Moussa, until a few weeks ago, was one of Europe's most enterprising, acclaimed bankers at the head of Paribas, a leading French bank with an worldwide array of industrial holdings.

Today, Mr. Moussa is a controversial and lonely figure. Blamed for helping Paribas' subsidiaries in Switzerland and Belgium elude nationalization by France's Socialist government, Mr. Moussa is reviled as a traitor by many Frenchmen. Even most other Paris business leaders have ostracized him — some because they think he acted unpatriotically, others because they fear the Paribas episode has radicalized the French government's view of business.

The Moussa case has become a symbol of the mutual suspicion separating the French business community and the Socialist government and crippling attempts to get the Paribas industry moving again.

It also has tragic personal implications. Mr. Moussa faces criminal investigation for currency offenses — a charge widely seen as an act of vengeance by a government that felt double-crossed by Mr. Moussa.

Miscalculated Reaction

For the moment, Mr. Moussa, is silent. Formerly a highly visible — and often liberal — spokesman for French business, he has left his Paribas office, the room where Napoleon married Josephine 181 years ago, for the seclusion in his Paris home, a spacious riverside apartment on the Left Bank filled with his collection of modern paintings. Following threats signed by leftist guerrillas, he has had to employ bodyguards.

Meanwhile, French magazines, which published investigations last week about him, conclude Mr. Moussa badly miscalculated the outcry he would unleash in France by letting the Paribas subsidiaries pass under foreign control.

Yet of all the French bankers, whose companies face nationalization after the French Socialists' victory, Mr. Moussa was probably the one with the strongest personal affinities to the leftists. He was a classic case of the bril-

liant outsider propelled to the summit of French banking by sheer talent.

Mr. Moussa, 59, whose father was Egyptian, is a cultivated intellectual who has written sympathetically on the Third World. Disliked by former rightist government for his political independence, Mr. Moussa had many personal friends on the French left. In the months after last spring's elections, he expected — not unreasonably — special treatment.

Moussa's Campaign

The new government was pledged to nationalize most French banks but in the post-election period Mr. Moussa campaigned strongly for Paribas to have its foreign activities exempted. Total nationalization, he argued, would destroy Paribas' international success, especially in the Arab world and in the United States, where Paribas had become a flagship of aggressive, modern French international banking.

Mr. Moussa's campaign was successful. The government agreed to let Paribas' foreign activities remain exempted. Total nationalization, he argued, would destroy Paribas' international success, especially in the Arab world and in the United States, where Paribas had become a flagship of aggressive, modern French international banking.

Mr. Moussa — shocked that his Socialist friends had rejected his advice and failed to protect the economic instrument he had constructed over a decade — confided to intimates: "We've been tricked, used, trapped. It's a total disaster. They have decided to plough under Paribas. It will be treated like [Hamblin destroying] Carthage."

Stung by the challenge to his judgment and accomplishments, Mr. Moussa then apparently decided to fight back by masterminding an attempt by Paribas foreign investors to buy up key subsidiaries and, ultimately, form a parallel, privately owned international Paribas.

The technique was for the parent company Paribas to sell its shares in some of its subsidiaries to other subsidi-



Pierre Moussa: From acclaim to controversy.

aries, thereby reducing the French company's control. Then the subsidiaries, with injections of cash, could buy up one another in turn.

For example, on Oct. 7 Paribas sold 20 percent of Paribas-Swiss to Copeba, a Belgian subsidiary. It had already sold another 5 percent of Paribas-Swiss to Paribas Luxembourg.

At the same time, non-French investors, long-standing business associates of Mr. Moussa, spectacularly increased the capital of another Swiss subsidiary — tiny Pargesa (whose name is an anagram of Paribas-Geneva-Switzerland): Le Point magazine said it rose from 50,000 Swiss francs to 280 million francs. The next day Pargesa was able to take over Paribas-Swiss. Copeba was bought by foreign investors a few days later in similar circumstances.

Predictable fury erupted in the French government, whose turn it was to feel duped. Many officials felt Mr. Moussa had exploited his friendship with Finance Minister Jacques Delors to disguise the operation.

"You double-crossed me," said Mr. Delors in a brief

(Continued on Page 19, Col. 1)

Chicago Exchanges, Ending Longstanding Truce, Battle Over the Future of Futures

By Winston Williams

New York Times Service

CHICAGO — For years the Chicago Mercantile Exchange has been overshadowed by the visibility and prestige of the Chicago Board of Trade, its more glamorous neighbor.

The Merc, as it is known, gained little attention for its highly successful listed contracts in live hogs, pork bellies and lumber. Few cared when the exchange failed to establish futures markets in turkeys, potatoes and frozen eggs.

But now Chicago's second futures exchange, bidding to become the premier trading house for financial instruments, has upset the competition with the success of its three-month-old contract on certificates of deposit.

And the Merc is preparing a spirited challenge to its rivals for dominance in the proposed Euro-dollar contracts, which promise to become one of the hottest ever.

Further clashes are likely also over the trading of stock index futures, if they are instituted, and over affiliations with foreign futures exchanges.

Rapid Changes

The competition is fierce, and most analysts say it is too early to tell who will come out on top. The game is changing very rapidly and either exchange may come up with a product that could build its volume," said Arthur Hahn, president of Rouse Woodstock, a commodities firm that trades on both exchanges.

Trading of certificates of deposit began early in July on the New York Futures Exchange, followed two weeks later by the Board of Trade and by the Merc at the end of August. The Merc, maintaining that as a general rule a given contract will be successful on only one exchange, is claiming victory over the early birds.

The last two or three weeks have indicated clearly that the liquidity is coming our way," said Leo Melamed, a special counsel to the Merc who masterminded that exchange's move into financial futures. "Our CD contract has become acceptable to the majority of users and once that happens you need an act of God to change directions."

During the second week in November, according to Mercantile Exchange figures, more than 75 percent of the 43,700 certificate of deposit contracts that changed.

(Continued on Page 19, Col. 6)

Debt-Laden Brazil Bets Heavily on Huge Amazon Project

By Warren Hoge

New York Times Service



SERRA DOS CARAJÁS, Brazil — Even for Brazil, where national leaders like to think big, the project now going under way at this Amazon site is immense.

The country that in the last 25 years built a new capital in the wilderness, created an extensive road system and helped construct the world's largest hydroelectric plant hopes to extract the huge deposits of iron, manganese, nickel, copper, bauxite and gold that lie beneath this hilly jungle region.

Brazil counts on seeing a minimum of \$61 billion invested for this purpose over the next decade. That amount equals the country's foreign debt, which is the largest in the developing world.

More Alarming

The entire undertaking called Great Carajás extends across 160,000 square miles and also includes cattle raising, forestry and farming. Everything except the iron ore mining now under way is to be put in the hands of private business groups. The government is sweetening the deal by building five hydroelectric plants to provide power, a town for 9,000 inhabitants, a 550-mile railroad and two deepwater ports at its Atlantic terminus.

"This has to be the most alarming project in the world," Cesar Cals, the minister of mines and energy, told a recent gathering of business leaders in Rio de Janeiro.

The Amazon has become legendary for goading people into thoughts of conquest and subsequently thumbing them. The Carajás planners believe that their attention to physical installations will spare them that traditional démon.

"More than one project has

failed because of the lack of an infrastructure to deal with the 'Amazon factor' — unfavorable climatic conditions, lack of local manpower and great distances," a report prepared by Mr. Cals's ministry said.

Planners in Brasilia, the capital, see Carajás as a way to offset the current slowdown in the capital-goods sector and a means of reducing foreign creditors' ambivalence over Brazil's growing foreign debt and its balance-of-payments deficits. The government hopes Carajás will account for \$15 billion in new exports by the end of the 1980s.

Already 26 million tons of iron ore have been sold for delivery after 1985 to Japan, West Germany, France and Italy, and investments are ahead of the 10-year development schedule.

A trial mining operation is already functioning, and the plant now under construction is expected to be producing 15 million tons by 1985, then 25 million tons by 1986 and 35 million tons a year thereafter.

There is so much iron in the ruddy earth of this area that engineers use lumps of iron ore as doorstops. The hospital, school, clubs and commercial zone being built here are on top of a major vein. "It will

take 30 years before we get around to digging it," said Cesar Bortol, head of the security force.

Because the region's crust is so hard, all of the new settlement's piping is above ground, and utility poles are set in concrete stumps 2 feet thick.

The rigid surface led to the discovery of the iron ore here. Bruno Augusto dos Santos, a Brazilian geologist working for a U.S. Steel Co. subsidiary, was making a helicopter survey for manganese 14 years ago. He became curious about the large patches of stunted plant life amid the otherwise unbroken forest.

"It was unbelievable," he said. "It seemed impossible to imagine that something like that was still waiting to be discovered on earth at a time when men were preparing to go to the moon."

Incentives Offered

U.S. Steel became a minority partner with the state-owned Vale do Rio Doce Co. in 1971. By 1977 the Brazilians dissolved this relationship, and U.S. Steel withdrew for a reported \$50 million. Subsequent geological studies disclosed the other minerals.

The government promises investors the benefit from incentives already in effect for development programs in the neglected northeastern part of Brazil. The law regulating foreign capital has not changed in the last 20 years.

The Great Carajás directors give preference to joint ventures and to foreign partners willing to bring risk capital and their own technology. Except for some of the more costly mineral projects, the majority ownership must be Brazilian.

Such requirements have not calmed the fears of many Brazilians that the government is leasing or selling the area to foreigners as

a way to alleviate its debt abroad. "The Amazon is ours," is a common example of graffiti in Brazil.

The foreign debt and balance-of-payments problems themselves come from past megalomaniac programs like this, equally ambitious and similarly put into operation through an arbitrary and autocratic decision-making process that is repeating itself in an emphatic manner in Carajás," said Renato Archer, a nationally known opposition politician in the neighboring state of Maranhão.

Eduardo Batista, president of Vale do Rio Doce Co., said the government had no intention of relaxing Brazilian authority over the area. "We are not a bunch of imbeciles about to give all this away to foreigners," he declared.

All of these securities have been sold. This announcement appears as a matter of record only.

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Bankers Expect Italy to Step Up Borrowings

By Carl Gewirtz

International Herald Tribune

PARIS — Italy, already Western Europe's largest borrower in the Euromarket, appears to be planning to step up the volume of its syndicated loans over the next 12 months.

That is the conclusion bankers draw from Italy's decision to seek parliamentary approval to abolish, for at least one year, the withholding tax on interest payments for foreign loans. The amount of tax varies by nationality of lender, but, by way of example, amounts to 24 cent on loans extended by U.S. banks.

The tax in any case is always paid by the borrower. But it means that many Italian entities find the cost of borrowing abroad too high. To get around this, some of the largest borrowers established financial subsidiaries outside the country — notably Luxembourg or the Netherlands — which arrange the loans and pass the proceeds to the parent. But establishing these offshore units also raises the cost of doing business.

Now the government is seeking to abolish the tax through at least the end of 1982 — at which time it could be extended. To be exonerated from the tax, a borrower will have to fulfill three conditions: The loan must be new money, not a refinancing of an existing debt; the loan must be for a period exceeding 18 months, and the proceeds must be used inside Italy.

"In effect," says a loan officer of a major U.S. bank, "the Italians are encouraging borrowers to raise funds abroad."

At latest count, according to Morgan Guaranty's monthly World Financial Markets, Italy has borrowed \$4.68 billion so far this year — slightly below the pace of a year ago when it had borrowed \$3.9 billion through the first 10 months of the year.

**SYNDICATED
LOANS**

on importance in view of the effort to encourage borrowers to tap the Euromarket.

Elsewhere in Europe, the Eastern Bloc's International Investment Bank is tapping the market for \$100 million. Interest is set at half a point over the London interbank offered rate for the first two years and ½ point over Libor for the final three years. Front-end fees, described as "rather attractive," help sweeten the marketing at a time when East European partners generally are being shunned.

Yugoslavia, for example, is having considerable difficulty putting together the \$400 million it is seeking for 7 years — despite the 13% point margin it is offering to pay over Libor.

In Latin America, Venezuela has finally mandated a group led by Chase Manhattan, Morgan Guaranty and Bank of Montreal to raise \$500 million. The loan, the start of the government's four-year, \$14.3-billion borrowing program to refund short-term debt, will run for 10 years. Interest will start at half a point over Libor for the first two years and ½ point over thereafter. The management fee totals a half percentage point.

How a Contest of Wills Led to Moussa's Fall

(Continued from Page 17)
final meeting with Mr. Moussa, who had promised to prevent the subsidies' departure.

"An embryo" shouted French Prime Minister Pierre Mauroy in a tumultuous Parliament. A historical allusion to the royalists who fled to Coblenz on the French border, to plot against the French revolution, the term carried an undertone suggesting Mr. Moussa had an unFrench, international business mentality that blinded him to French sensibilities.

Symbolic Importance

"Moussa didn't understand Paribas was a symbol, like the Rothschilds, and you can't negotiate about a symbol," commented a Socialist musing on the irony that Mr. Moussa was expected to help the Socialists' gain international credibility for the French economy — until he became a scapegoat.

Less predictably, some of Mr. Moussa's closest associates in Paribas turned against him, even though they are globe-trotting financial empire-builders, like himself. "If the French business establishment had not balked, the operation would have worked and a whole new [privately-owned] International-Paribas would probably have been born," the leftist magazine *Le Nouvel Observateur* said.

It reported heated confrontations inside Paribas. Mr. Moussa was asked for his resignation, and a senior board member accused him of "defecting from France's democratic system."

Mr. Moussa resorted to his colleagues that they were "like Marshall Pétain, ready to collaborate with the enemy." He vowed to fight to the end, but the Paribas board — a blue-ribbon panel of French industrialists — ousted him.

"They had a gut reaction against selling off part of France, even out from under Socialists," a French business reporter said, adding that they also felt Mr. Moussa had disclosed an ugly side of capitalism.

Consolidated Trading

Of NYSE Listings

Week Ended November 25, 1981

	Sales	High	Low	Last	Chg.
MarOil	4,875,000	1074	1074	1074	+25%
Firestone	4,790,000	1115	915	1115	+4%
Goodyear	3,441,000	1054	1215	1054	+4%
General Mills	2,914,000	1115	1074	1115	+4%
ATT	2,297,000	375	264	275	-3%
USSteel	2,264,200	33	274	274	-3%
IBM	2,257,200	574	499	526	-3%
CMVic	2,242,000	54	495	52	+17%
General Mills	2,238,000	1115	1074	1115	+4%
Qwest	2,238,000	205	238	245	-7%
Textron	2,241,200	845	835	845	+2%
Textron	2,085,000	495	344	379	+2%
Electrolux	2,082,000	1472	1354	1472	+2%
Citgo	2,080,000	1472	1354	1472	+2%
Penzance	1,986,000	545	495	526	+17%
DePuy	1,955,500	545	495	526	+17%
Felof's	1,907,000	478	455	485	+1%
Conoco	1,878,000	1814	1654	1774	-1%
GTE	1,872,000	34	374	359	+1%

Issues Traded in: 2140

Advances: 1622 ; Declines: 710 ; unchanged: 208

New highs: 83 ; new lows: 119

Volume:

	251,810,000 shares
Last Week	245,440,000 shares
1980 same week	204,000,000 shares
1981 to date	104,671,000 shares
1980 to date	104,540,000 shares
1979 to date	72,245,500,000 shares

that would incite more radicalism in the Socialist party. The whole episode coincided with mounting frustration among leftists about delays in the nationalization and employment programs.

Some members of the Paribas board are personal friends of President François Mitterrand; others were anxious to curry favor with the new government. "Those bankers had never really liked Moussa and they were scared for their own jobs," a Socialist government official said. "It was a perfect chance to dump a man they resented and get credit for being team-players with the Socialists."

Meanwhile, the government had found a way to get its revenge on Mr. Moussa by reopening a smuggling case involving Paribas. In July, 1980, the Paribas department managing the portfolios of wealthy individuals arranged to spirit 35,000 gold coins — valued at \$6 million — out of France.

State's Revenge

The coins belonged to Pierre-Jean Latécoëre, heir of a Toulouse aircraft manufacturer. The gold board, handed down in the family, had been stashed away under the floor of the drawing room at the family château and never touched.

It was not discovered by the German troops occupying the château during World War II, nor even broached when the family-owned factory lacked capital so badly it had to lay off workers.

Convinced that France was becoming unsafe, Mr. Latécoëre accepted a Paribas proposition last year to smuggle out his gold. Mr. Moussa, as the bank's head, was legally implicated, although it is unclear whether he actually knew about the operation, on which Paribas reportedly received a 10-percent commission.

Couriers took the gold in five batches to Luxembourg, then via Belgium to Canada. In the process, some of the original Indian-head coins were skimmed off and replaced with less valuable coins — for an additional estimated profit of \$80,000, for Paribas or some of its employees.

The crime was discovered last year by police when they raided this specialized Paribas department and found records listing several hundred French people whose capital fled France via Paribas in previous electoral scares.

This kind of offense is normally settled with a fine, and the French authorities initially set a fine for Mr. Latécoëre, who arranged to pay it with an interest-free loan from Paribas to spare him from having to dump his coins on the market at once.

Second Investigation

But early this month the government announced that it intended to prosecute instead. Last week it opened a second investigation — involving Mr. Moussa's case, together with 55 more Paribas clients allegedly involved in exchange-control offenses involving \$40 million.

This case involved another system of fraud in which foreigners deposit hard currency in a Swiss branch of Paribas and get French francs in Paris; then a French customer of Paribas, who provided the French francs in Paris, can pick up the hard currency abroad, thereby evading currency controls.

Ironically, the offenses for which Mr. Moussa risks jail were uncovered in the first place under the government of former President Valéry Giscard d'Estaing — probably as a result of Mr. Moussa's quarrel with the former president. Now they have been picked up as a weapon by the Socialists.

Rally Propels Bond Volume to Record Levels

(Continued from Page 17)

day that the current rally may be two-thirds over. "On the basis of the average decline in long-term interest rates for the post World War II period, one might conclude that the current rally is more than two-thirds over in some sectors of the bond market," he told a seminar in New York.

But, as one wag remarked, that means there still is another third to run.

A modest volume of new issues were marketed last week. Household Finance International launched a \$75-million, 7-year issue with an indicated coupon of 13 1/4 percent and within 24 hours the size was increased to \$100 million and the coupon cut to 15 percent. Priced at par, it ended the week at 99 1/2.

Canadian National Railway is offering \$100 million of 10-year bonds. The coupon, initially indicated at 14 1/4 percent, was finally set at 14 percent and the paper was sold at par.

Abitibi-Price, the Canadian newsprint manufacturer, sold \$50 million of 10-year bullet bonds at par, bearing a coupon of 13 1/4 percent.

Euronat, the European atomic energy commission, sold \$40 million of 10-year paper at par bearing a coupon of 14 1/4 percent.

Also come and gone was a \$50-million, five-year issue for Armo-Overseas Finance, guaranteed by Armo Inc. The notes were sold at par bearing a coupon of 13 1/4 percent and the issue price was set at 99 1/2 percent.

Currently on offer is the first part of a \$400-million issue for Sweden, whose U.S. debt is rated triple-A. An initial \$150 million of 7-year paper is being marketed with an indicated coupon of 14 1/4 percent and an issue price of 97 1/2. That price would push the yield to 14.85 percent and institutional investors able to command the 3 1/4-point selling concession could pick up the paper at a yield of just over 15 percent. Managers have until June to sell the remainder of the issue.

The province of Quebec, whose U.S. debt is rated double-A, is offering \$100 million of eight-year bonds bearing an indicated coupon of 13 1/4 percent. The final terms and issue price will be set Thursday.

Consolidated Trading

Of AMEX Listings

Week Ended Nov. 25, 1981

	Sales	High	Low	Last	Chg.
Domino's	2,674,000	1254	1244	1254	+1%
Intelsat	1,552,000	416	394	394	-1%
Hedging	1,117,000	424	394	424	+2%
HeadOTY	714,000	19	18	18	-1%
Heublein	520,000	319	314	319	+2%
Datadog	511,700	305	304	305	-1%
Meritech	422,000	205	164	205	+17%
RomerCo	364,700	819	795	819	+1%
Amchit	349,000	29	27	29	+1%
Globalogic	254,000	174	164	174	-1%

Volume: 23,491,000 shares

Year to Date: 24,518,000 shares

1980 to date: 10,467,000 shares

1981 to date: 10,467,000 shares

1980 to date: 10,467,000 shares

1979 to date: 7,245,500,000 shares

Issues Traded in: 2140

Advances: 1622 ; Declines: 710 ; unchanged: 208

New highs: 83 ; new lows: 119

Volume:

This would

be the

last

week

for

the

year

to

date

for

the

decade

to

date

for

the

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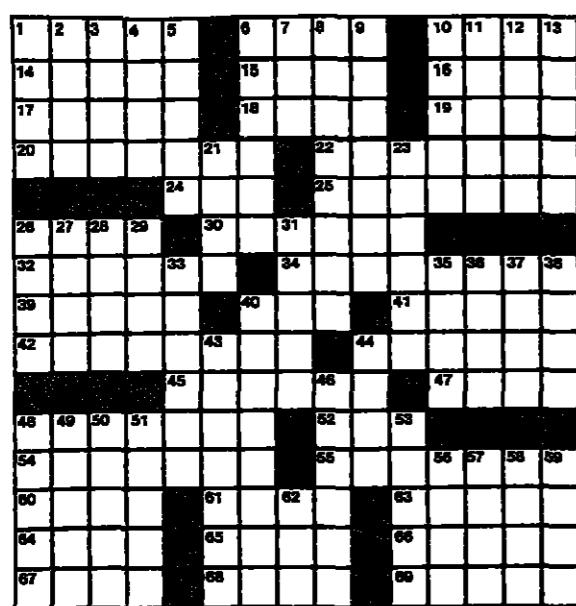
the

century

to

CROSSWORD

By Eugene T. Maleska



ACROSS

- 1 Leigh or Gaynor
- 6 Sedans or coupes
- 10 "—art
- 12 Dada's advice to workers
- 15 "There caughta be—"
- 16 Seaweed derivative
- 17 Mortise's
- 18 Place to get separated from one's spouse or money
- 19 Raton, Fla.
- 20 Welsh port
- 22 Wedged page corners
- 24 Imp
- 25 Ballroom dance
- 26 "The World According to" — Irving
- 30 Fabulous aquatic creatures
- 32 Alaskan natives
- 34 Urban legislator
- 38 City in upscale N.Y.
- 40 Baker
- 41 Choice morsel
- 42 "Be good and you will be—"; Twain

DOWN

- 44 Sign of good aging
- 45 "Vale—": Sibilis
- 47 Murderously frenzied
- 48 Scrutinize
- 52 Bracelets, at times
- 54 Wisconsin port
- 56 Wobbles
- 58 Pitcher
- 61 "The Seven Years"
- 63 One field for him
- 64 William Howells
- 65 "Oh that I had wings like a —"
- 66 Heavenly hunter
- 67 Grecian Ray
- 68 Indian titles
- 69 Blake and Wordsworth
- 70 Projects
- 72 —nation, conceived in liberty...
- 73 Pinta's companion
- 74 Row's rival
- 75 Jimmy
- 76 Beverage connoisseur
- 77 Beverage
- 78 Not by design
- 79 Bobby-somers often did this
- 80 Kaplan and Pressman
- 82 II-LIII

WEATHER

	HIGH	LOW	C	F	HIGH	LOW	C	F
ALGARVE	19	65	C	Cloudy	MADRID	17	62	Overcast
ALGIERS	24	75	C	Fair	MANILA	27	11	Foggy
AMSTERDAM	14	65	C	Fair	MEXICO CITY	24	72	Cloudy
ANKARA	14	65	C	Fair	MILAN	24	72	Foggy
ATHENS	14	65	C	Fair	MONTREAL	22	24	Cloudy
AUCKLAND	17	65	C	Cloudy	MOSCOW	15	34	Shower
BANGKOK	31	75	C	Overcast	MUNICH	15	34	Overcast
BELGRADE	12	55	C	Cloudy	MURMANSK	24	72	Foggy
BERLIN	9	48	C	Overcast	NASSAU	24	72	Foggy
BOSTON	7	45	C	Cloudy	NEW DELHI	27	22	Foggy
BRUSSELS	12	55	C	Cloudy	NEW YORK	6	42	Cloudy
BUCHAREST	15	59	C	Rain	NICE	15	59	Overcast
BUDAPEST	15	59	C	Rain	NOVA	7	59	Overcast
BUENOS AIRES	22	75	C	Cloudy	PARIS	17	52	Overcast
CAIRO	22	73	C	Cloudy	PEKING	5	41	Rain
CAN TOWN	20	75	C	Cloudy	PRAGUE	11	59	Rain
CASABLANCA	14	77	C	Cloudy	REYKJAVIK	12	72	Fog
CHICAGO	3	37	C	Cloudy	SAO PAOLO DE JAIRO	14	54	Foggy
COPENHAGEN	7	45	C	Overcast	SALISBURY	22	72	Cloudy
COSTA DEL SOL	22	72	C	Overcast	SAO PAULO	29	1	Foggy
DUBLIN	13	55	C	Cloudy	SEOUL	8	42	Foggy
EDINBURGH	7	45	C	Cloudy	SINGAPORE	15	59	Cloudy
FLORENCE	15	59	C	Cloudy	STOCKHOLM	22	72	Foggy
FRANKFURT	14	57	C	Overcast	SYDNEY	4	42	Foggy
GRENADA	14	57	C	Cloudy	TAIPEI	22	72	Overcast
HELSINKI	4	39	C	Snow	TOKYO	17	52	Foggy
HONG KONG	24	75	C	Rain	TURKIS	14	57	Fog
HOUSTON	22	72	C	Cloudy	VIENNA	15	59	Foggy
ISRAEL	10	42	C	Cloudy	WICHITA	12	55	Cloudy
JERUSALEM	6	43	C	Rain	WINDSOR	12	55	Cloudy
LAS PALMAS	22	72	C	Cloudy	WISCONSIN	14	57	Cloudy
LIMA	23	73	C	Fair	ZURICH	14	57	Cloudy
LONDON	23	73	C	Fair				
LOS ANGELES	23	73	C	Fair				

Readings from the previous 24 hours.

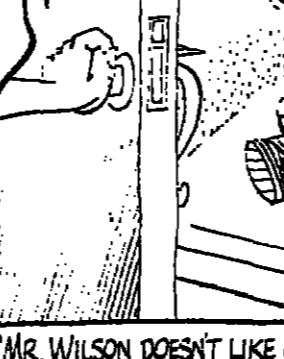
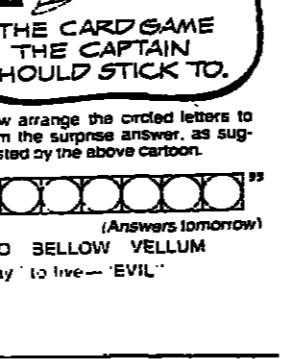
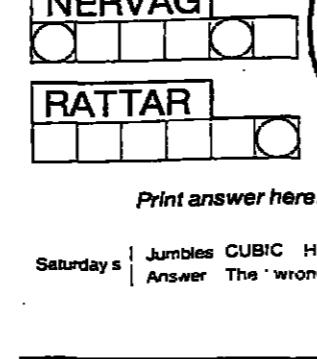
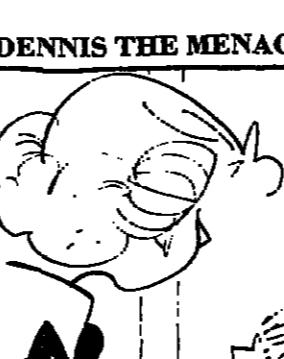
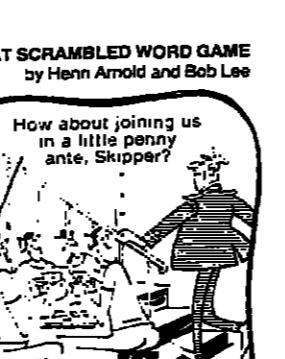
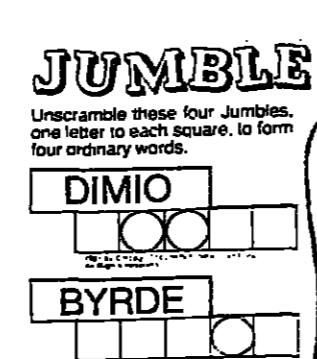
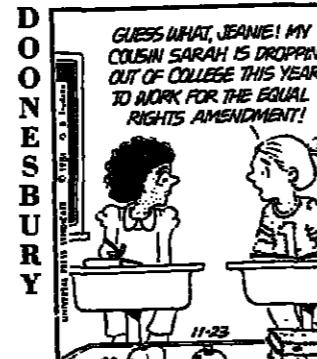
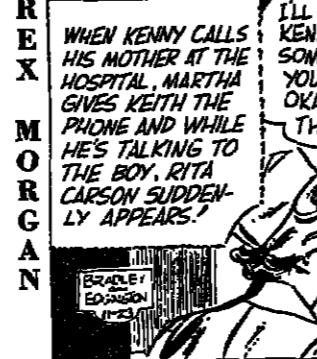
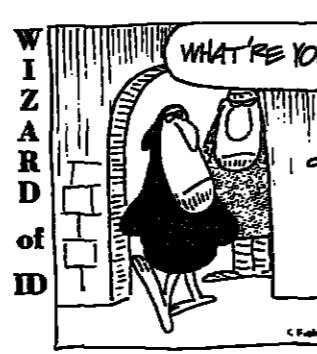
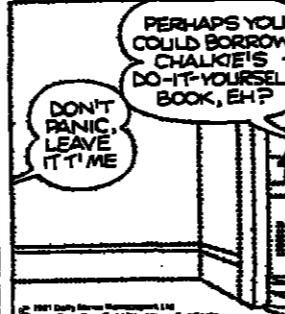
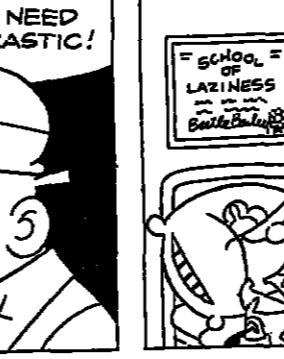
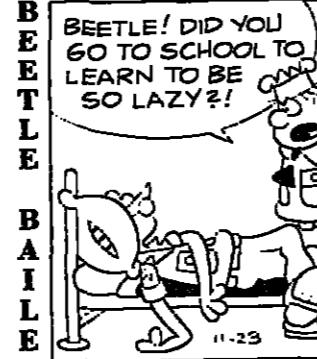
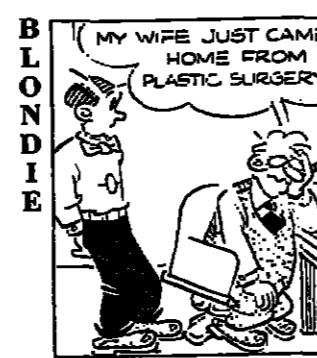
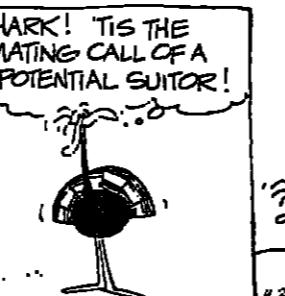
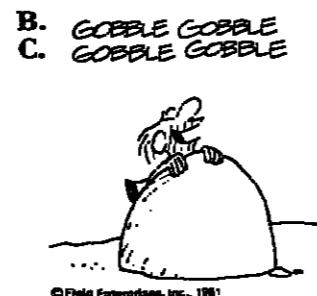
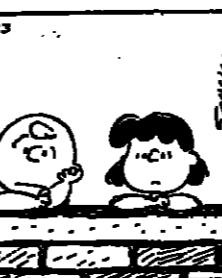
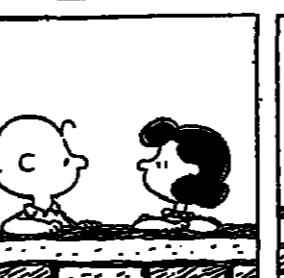
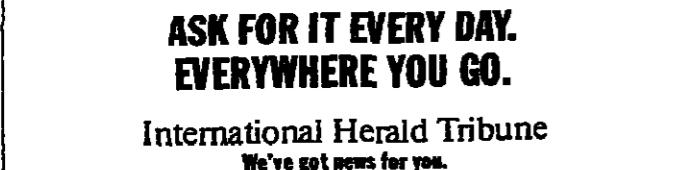


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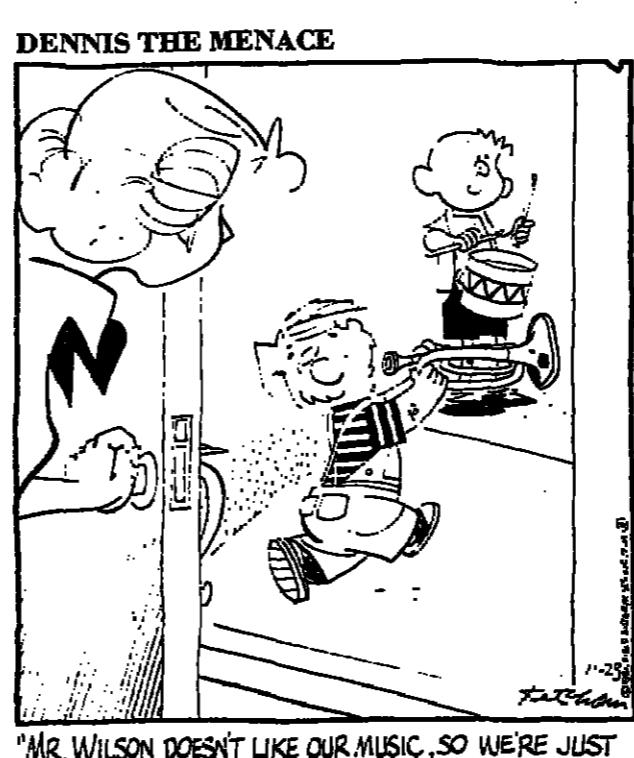
Print answer here: 

(Answers tomorrow)

Saturday's Jumbles CUBIC HELLO BELLOW VELLUM
Answer The "wrong way" to live—EVIL

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BOOKS

THE CHILD SAVERS

Juvenile Justice Observed
By Peter S. Prescott. 244 pp. \$12.95.

Alfred A. Knopf, 201 East 52nd Street, New York 10022.

Reviewed by Michiko Kakutani

There is a terrible sort of irony about the title of Peter Prescott's book "The Child Savers." As he documents the extraordinary incompetence, callousness and simple iniquity of New York City's juvenile-justice system, it becomes all too apparent that this institution, set up to ease the grief and pain of families, frequently ends up furthering their despair. It is a story of good intentions gone awry; of liberal, humanitarian impulses clashing against an intractable and bleak reality; of children — some innocent; some, victims — who have fallen into the crevices of modern life.

Over the course of five years, he interviewed judges and lawyers, probation officers and social workers, children and their parents, and he took advantage of a rarely granted opportunity to observe the workings of the court first-hand.

We meet such members of the juvenile justice system as Tom Curtis, a young Legal Aid lawyer, who "as a token of his conservatism" serves part of each year as a captain in the National Guard; Judge Blossom Heller, who the day after the blackout of 1977 declared that any child brought before her would be remanded, and Stephen Pokart, a Harvard-educated lawyer with the Juvenile Rights Divi-

sion, whose missionary zeal has been replaced by the sobering conviction that "I don't think I can change anything now."

And given the examples of children who have appeared before the court, it is easy to understand Pokart's pessimism. There are the abused 15-year-old Ida Martin, sexually assaulted by her lesbian mother; the violent Angela Sanchez, 15, who, along with her 15-year-old brother, was shot with a knife and in retaliation with a sawed-off shotgun; and the unwanted Xavier Morales, living at Cevoland House because his mother, who has taken a new lover, can't be bothered with him.

The ability of the system to deal with much less repair such damaged lives is severely questioned by Prescott. In the first place, he reports, Family Court seems to be a good percent of referred cases — chosen to defer judgment or simply to place the child in question on probation. And those cases that do get to court are unlikely to fare much better: of the 30-odd cases on a judge's daily calendar, few will be heard in entirety, some not at all. Even the majority of child abuse cases — perhaps the most urgent of all Family Court's responsibilities — drag out in court at least six months; 42 percent take a year or more.

What's more, court decisions, when they are finally made, are apt to offer little solace. Although it is the parent who is at fault in neglect and abuse cases, it is the child who is shipped off to an institution or turned into an orphan to wander from one foster home to another. And the fate of violent delinquents is similarly bleak: let go, many are likely to repeat the acts that brought them to court in the first place; sentenced they are likely to end up in a place like the Spofford detention center, where drug abuse, sexual assault and beatings have been a fact of life.

Michiko Kakutani is on the staff of The New York Times.

Solution to Friday's Puzzle

ARAS ABACADA CADIDI
TELE MALAY AMEN
LEGAL PROFESSION
AVILA RETAKE
SEDAHLIA ARO HAT
WANTON AMY TH
JURY ARC LADLE
ALEE NYACK GRAD
INURN LOI IOWA
LASSO SAUTES
SEE BAH NEATEST
MEDIAS GRATE
AMBULANCE CHASER
HEAR PERLE TEAR
SKR TRESS EODY

Greek government, and the government warned that legislation would be tightened and restrictions placed on the school if it failed to consult with Greek authorities on its activities.

"Those statements need not be commented on," Mr. Shear said. "The Greek government has changed since they were made." He pointed out that the Greek consul general in New York attended a celebratory dinner given by the school Friday evening.

"On a scientific basis, our identification is correct," he added. "All the artifacts and material evidence and the historical descriptions and documentation leave no doubt that this is the Painted Stoa, who gathered there known as the Stoics, who gathered there."

The existence of the stoa has been informally known since the summer following reports in foreign newspapers of the find by Prof. T. Leslie Shear, director of the Agora excavations and professor of classical archaeology at Princeton University in New Jersey.

Last week, Mr. Shear dismissed a statement issued in September by Greek authorities that "scientific doubts" remained about the stoa and that he was too hasty in erroneously asserting to have found it. The Greek Ministry of

Iowa Earns Rose Bowl Berth Against Washington

United Press International

IOWA CITY, Iowa — Phil Hatcher rushed for 247 yards and two touchdowns and Iowa's defense forced five turnovers Saturday to pace the Hawkeyes to a 36-10 victory over Michigan State and berth in the Rose Bowl, against the University of Washington, for the first time in 23 years.

Coupled with Ohio State's 14-9 victory over Michigan, the Hawkeye triumph left Iowa in a tie with Ohio State for the Big Ten Conference championship with a 6-2 record. The Hawkeyes will go to the Rose Bowl to play Washington under the league's last appearance rule; Ohio State went to the 1980 Rose Bowl.

With 6:14 remaining in the second quarter, a capacity crowd of 50,103 erupted when the public address speaker announced that Ohio State had upset Michigan.

Other New Year's Day

matchups:

Bengals Beat Broncos, 38-21; Anderson Stars

Associated Press

CINCINNATI — Quarterback Ken Anderson passed for 396 yards and three touchdowns Sunday to pace Cincinnati to a 38-21 National Football League romp over Denver. It was the fourth straight victory and sixth in seven games for the Bengals.

Anderson connected on 25 of 37 passes, hitting on touchdown plays of 65 yards to Charles Alexander, 7 yards to rookie Eric Collinsworth and 2 yards to Pete Johnson. Anderson also scored a touchdown on a 2-yard run.

In the fourth period, injured quarterback Craig Morton's replacement, Steve DeBerg, connected on 14-yard scoring passes to Steve Watson and Rob Lytle. Denver's only other TD came on a 5-yard, second-period run by Lytle.

Bengals 37, Packers 3

In Tampa, Fla., safety Cedric Brown ignited a 24-point second quarter by returning an interception 81 yards for a touchdown and James Owens sprinted 35 yards for another to pace Tampa Bay to a 37-3 triumph over Green Bay. Owens rushed for 112 yards on 16 carries and caught 4 passes for 44 yards.

Bill Casper, who kicked three field goals, gave the Buccaneers a 3-0 lead with a 47-yarder in the first quarter. Brown stepped in front of a Rich Campbell pass at the Tampa Bay 11 on the first play of the second quarter and raced down the right sideline for a 10-0 lead. Four minutes later, the Bucs pushed the score to 17-0 on Owens' dash to cap an 80-yard drive keyed by the passing of quarterback Doug Williams.

Giants 21, Oilers 10

In Houston, two touchdown runs by Jack Holmes and 142 yards rushing by George Rogers gave New Orleans 27-24 victory over the Oilers. The Saints capitalized on three pass interference calls against the Oilers for the winning score. After Houston had rallied for a 10-10 tie in the third quarter, the Saints went 74 yards in 6 plays — including 57 yards on two interference penalties — to set up Holmes' 2-yard touchdown run.

The Saints expanded their lead to 24-10 on a 22-yard pass from quarterback Archie Manning to running back Wayne Wilson and tacked on a 42-yard field goal by Benny Ricardo with 5:01 left to play. A 25-yard

pass interference call set up the field goal.

Steelers 32, Browns 10

In Cleveland, Donnie Shell intercepted three Brian Sipe passes and Anthony Washington two, and five Steelers scored short-yardage touchdowns as Pittsburgh rolled past the Browns, 32-10. Ron Johnson intercepted a sixth Sipe pass with seconds left in the game.

Franco Harris scored from two yards out early in the third period, giving Pittsburgh an 18-10 lead and tying Harris with former Green Bay back Jim Taylor in career rushing touchdowns with 83. They trail only former Cleveland standout Jim Brown, who had 166 TDs rushing.

Giants 21, Eagles 10

In Philadelphia, Joe Daniel kicked a 30-yard field goal and cornerback Terry Jackson returned an intercepted pass 32 yards for a touchdown in the final period as the New York Giants upset the Eagles, 20-17.

Ferguson connected with a diving Hooks for a 37-yard pass to the New England 36. Two plays later, Ferguson lobbed the ball into the end zone, and the ball was tipped by Buffalo's Frank Lewis into Hooks' hands for the score.

With the score tied, 10-10, and

Cotton Bowl: Texas, which clinched the berth with a victory over Baylor while SMU eliminated Arkansas from contention, will meet Alabama, which still has a game to play.

Orange Bowl: Clemson, with its first undefeated season in 33 years, will meet Nebraska, which captured the Big Eight Conference title last week and wound up 9-2.

Fiesta Bowl: Penn State will meet Southern California. The Nitro Lions beat Notre Dame Saturday.

In other postseason games, Oklahoma State will meet Texas A&M in the Independence Bowl (Dec. 12); Tennessee will play Wisconsin in the Garden State Bowl (Dec. 13); San Jose State will host Toledo in the first California Bowl (Dec. 19) and Southern Mississippi will meet Missouri in the Tangerine Bowl (Dec. 19).

Washington, which needed to beat Washington State and hope for a Southern California victory over UCLA to clinch the Pac-10 title, got both.

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Other New Year's Day

matchups:

North Carolina meets Arkansas in the Gator Bowl (Dec. 23); Ohio State plays Navy in the Liberty Bowl (Dec. 30) and Michigan and UCLA go at it in the Bluebonnet Bowl (Dec. 31).

West Virginia will meet the winner of Saturday's game between Florida and Florida State in the Peach Bowl (Dec. 31). The Sun Bowl, played Dec. 26, has not yet announced its pairing.

Wash. 23, Wash. State 10

In Seattle, Ron Jackson ran 23 yards for a third-quarter touchdown to carry Washington to its second consecutive Rose Bowl with a 23-10 victory over Washington State. Trailing, 7-3, the Huskies drove 63 yards for the go-ahead score late in the second quarter.

Clemson 29, So. Carolina 13

In Columbia, S.C., tailback Chuck McSwain ran for 151 yards and scored two second-half touchdowns to lead Clemson to a 29-13 victory over intrastate rival South Carolina.

Nebraska 37, Oklahoma 14

In Norman, Okla., fullback Phil Bates scored on runs of 16 and 2 yards to pace Nebraska to its second victory over Oklahoma in the last 10 years, this one by 37-14. It is the first time since 1972 that the Sooners have lost four games.

Ohio State 14, Michigan 9

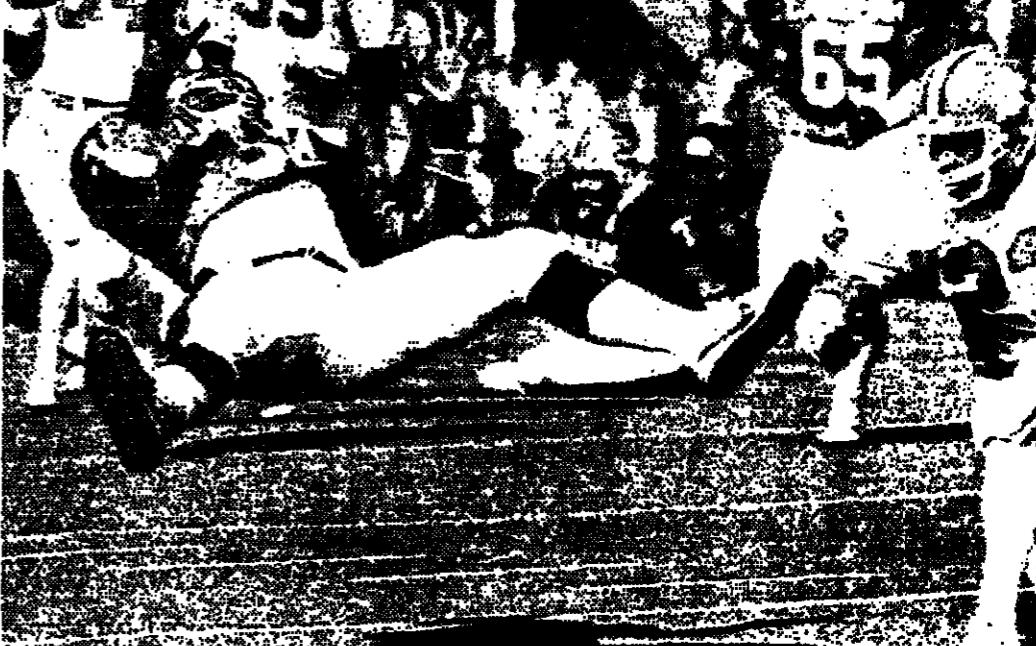
In Ann Arbor, Mich., quarterback Ari Schlichter scored his second touchdown of the game on a 6-yard bob-and-weave run with 2:30 to play as Ohio State spoiled Michigan's Rose Bowl hopes, 14-9. The Wolverines needed a victory over the Buckeyes to nip Iowa for the Big Ten title.

SMU 32, Arkansas 13

In Fayetteville, Ark., Eddie Garcia kicked four field goals, and Eric Dickerson and Craig James each rushed for more than 100 yards to lead Southern Methodist to a 32-13 victory over Arkansas and its first Southwest Conference championship in 15 years.

USC 22, UCLA 21

In Los Angeles, Marcus Allen, the most prolific single-season rusher in the history of college football, ran for 219 yards and a pair of touchdowns — including



United Press International
South Carolina's Kent Haggard lost the ball after colliding with safety Jeff Suttle (23) in Clemson's 29-13 victory Saturday. The winners are 11-0 and will play Nebraska (9-2) in the Orange Bowl.

Brigham Young 56, Utah 28

In Provo, Utah, Jim McMahon

passed for 565 yards, four touchdowns and shattered two more NCAA records in leading Brigham Young to a 56-28 victory over Utah and the Western Athletic Conference championship.

Australia Wins, 16-12

From Agency Dispatches

DUBLIN — Australia bounced back from a defeat by Munster last week to beat Ireland Saturday, 16-12, in the first of four rugby union tests on a three-month tour of the British Isles. Wales, Scotland and England remain to be faced. Relying heavily on defense, the Wallabies led throughout the match in which they were often dominated. Their forwards were in trouble from the start, outgassed at the lineouts and losing ground to the Irish in the scrums.

Ireland ran the good possession several times, but the Australians' tackling prevailed. Their ability to capitalize on loose balls was rewarded midway through the second half when center Andrew Slack scythed through the Irish defense to put wing Mick O'Connor over the line.

It was Team Karpov over Team Korchin. A victory (to paraphrase The New York Times' Robert Byrne on Anatoli Karpov's world title victory Friday) of cool-headed practicality over hot-blooded dash. The New Zealanders scarcely ever overextended themselves, but won smoothly when the opportunity came.

Black vs. White

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France 18-6

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Language

Down the Upscale

By William Safire
NEW YORK — When two newsmagazines covered the demise of a newspaper's afternoon edition, both used a word favored by mediamen, upscale: "The News' upscale 'Manhattan' section will be eliminated," wrote Newsweek. Time magazine quoted an unnamed source as saying, "They are trying to go back downscale now, but they forgot the reason we went upscale is that downscale wasn't working."

Jean Brandes of Whitehouse Station, N.J., asks, "Isn't it too pricey for words?" Since newsmagazine editors are busy running up the down scale, I turned to Fred Mish, editorial director of G.C.C. Merriam Co. for the usage pattern. He found a glossary of media terms published by Batten, Barton, Durstine & Osborn the ad agency, in 1966, which described both upscale and downscale, with the main entry for downscale: "A market or audience with above-average representation at the lower end of the socio-economic scale."

The flood of citations marking the present vogue began in 1979 and continues unabated. Mish reports, pointing to the extension of its meaning to include things as well as people: "To combinations like 'upscale audience,' 'upscale market,' and 'upscale consumers' are now added 'upscale something-of-France' (of a recipe for bouillabaisse) and the designation of a fashionable man's jacket based on the old Air Force flight jacket as 'upscale fatigues.'"

IN A recent Time magazine account of the sale of AWACS aircraft, the editors permitted this reference to an order made by the Shah of Iran: "planes that fortuitously were never delivered." "Fortuitously" means "by chance, by accident, through a stroke of good or bad fortune"; the word Time had in mind was "fortunately," which means "luckily, through good fortune." The distinction between the two words should be maintained. The acceptance of the blurring of this distinction is an example of downscaling.

JUST ABOUT every newspaper

in the United States carried the etymology of "Weather Underground": A line in a Bob Dylan song, "You don't need a weatherman to know which way the wind blows," became the basis for "Weatherman"; then some women members objected to the male-sounding ending, and the name was changed to "Weatherpeople"; when some members stormed about that, "Weather Underground" was adopted, with its immediate overtones of World War II resistance fighters and a deeper etymology from Dostoevsky's "Notes From the Underground."

Some reporters, however, were entrapped by the language of political activism and did not treat the holding of a Brink's truck as a heist: "I say it's a bank job," writes Thomas Allen of Bethesda, Md. "I also say that newspapers and the police (law-enforcement personnel) should stop elevating crime to political activity. The CIA may question agents in safe houses, but outlaws scare to hideouts. Politics is politics, and crime is crime. There are no political crimes in that country, but there are criminals who are adding to their crimes by robbing words of their meaning."

The Americanism hideout was first cited in 1885, derived from "hiding place." Safe house is a term which former director of Central Intelligence Richard Helms says probably originated in World War II: An address to which agents were dropped into France was directed; its meaning has changed in CIA parlance to "a place where defectors are kept."

The elevation of hideout to safe house in the Weather Underground story was an unconscious acceptance of the inherently political, rather than primarily criminal, nature of the act.

I failed to observe the wiperout of hideout because my attention was fixed on "shot to death." In most of the stories the robber and robbers who were slain were described as "shot to death," which may be acceptable to sloppy writers as an idiom, but is worth resisting.

When it comes to killing by shooting, the correct expressions are "shot dead" and "shot and killed"; for cases in which the death occurs hours or days after the shooting, "shot fatally" or, if you prefer the archaic, "mortally wounded."

New York Times Service

Diana Trilling: A Verdict On an Unsettling Success

By Michiko Kakutani
New York Times Service

NEW YORK — In all her work, Diana Trilling has been interested in the relationship between aesthetics, morality and society, and in her recently published book, "Mrs. Harris," an account of the trial of Jean Harris for the murder of Dr. Herman Tarnower, she declares that an individual's "moral style" can be deduced from his style of life.

Tarnower's suburban house, for instance, strikes her as an ugly manifestation of the doctor's belief that money "was class, and that class conferred moral stature," and she writes that the Madeira School for girls in Greenway, Va., where Harris was headmistress, sounds like "a patrician zoo."

What one wonders, does Trilling make of her own spacious apartment near Columbia University — this apartment filled with Italian and Japanese prints, vases of fresh flowers, worn brocade sofa and bookshelves lined with Eliot and Proust and Freud.

"You come into this room," she says, in the same voice of cattiness that informs her prose, "and I would hope that what you saw had some kind of relation to my judgments in terms of how I live, how I choose my friends. You would say there is a great aesthete in this room — there's a lot that's modern and there's a lot that's old. It's not just aesthetic. It says: here is someone whose life has been based in tradition, but who is not reusing what is going on in the contemporary world."

In the past, this determination to bring some sort of moral — moralistic, some of her sharper critics have said — judgment to bear on both literature and public issues has animated her essays on such disparate subjects as the Columbia student uprising, Norman Mailer and the work of D.H. Lawrence, and she attempts to employ this Arnolitan approach to criticism in her new book. For Trilling, the story of Jean Harris is a kind of literary text, containing "love and sexual passion, honor, money, envy, jealousy, greed, death, greatness and meanness of spirit, the an-

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